Canada. Royal commission on price spreads of food products.

Hearings. v. 22-24, 1958.

Dorothy Walton

ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.: 22

DATE: NOV 12 1958

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865

ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products resumed at 2.00 p.m. on Wednesday, November 12th, 1958, at Ottawa, Ontario

---

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary	John Dawson
Assistant Secretary	A. A. Caron

Submission of

NATIONAL SEA PRODUCTS LIMITED

Appearances:

Mr. C. J. Morrow	President, Ocean Fisheries Limited, Halifax, N. S. President National Sea Products Limited
Mr. Gordon O'Brien	Fisheries Council of Canada

THE CHAIRMAN: Gentlemen, if you will come to order we will open the hearing now. I might say on behalf of my colleagues that we are pleased to be starting our hearings in the capital city and perhaps even looking forward to completing them here during the ten days ahead of us. I am going to ask the Secretary if he will read the Order in Council in English and the Assistant Secretary if he will read the Order in Council in French.

MR. DAWSON: P.C. 1957-1632. Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 10th December, 1957.

The Committee of the Privy Council, on the recommendation of the Right Honourable John George Diefenbaker, the Prime Minister, advise that:

Dr. Andrew Stewart, Edmonton, Alberta
Mrs. Dorothy Walton, Toronto, Ontario
Mr. Howard MacKichan, Halifax, Nova Scotia
Mr. Romeo Martin, Montreal, Quebec
Dr. W.M. Drummond, Guelph, Ontario
Mr. Cleve Kidd, Toronto, Ontario, and
Mr. Bernard Couvrette, Montreal, Quebec

be appointed Commissioners under Part I of the Inquiries

Act, to:

(a) inquire into the extent and the causes of the spread between the prices received by producers of food products of agricultural and fisheries origin and the prices paid by consumers therefor;

(b) determine whether or not such price spreads in general or in particular cases are fair and reasonable, or are excessive, in relation to the services rendered;

(c) make such recommendations as they deem appropriate if any such price spreads are found to be excessive; and

(d) examine the adequacy of price information currently available.

The Committee further advise:

1. That the Commissioners be authorized to exercise all the powers set out in section 11 of the Inquiries Act;

2. That in the exercise of their powers to employ counsel, experts and assistants under section 11 of the Inquiries Act, the Commissioners may authorize remuneration to such persons and reimbursement for their expenses with such limits and on such conditions as the Treasury Board may determine from time to time;

3. That the Commissioners adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the inquiry and sit at such times and at such places in Canada as they may decide from time to time;

4. That the Commissioners be assisted to the

fullest extent by government departments and agencies;

5. That the Commissioners report to the Governor in Council;

6. That Dr. Andrew Stewart be Chaiman of the Commission.

R. B. Bryce,
Clerk of the Privy Council

THE CHAIRMAN: Mr. Caron?

MR. CARON: Decret du Conseil Creant La Commission Royale D'Enquete Dans Les Escarts de Prix CP 1957 - 1632. Copie certifiee conforme d'un proces-verbal d'une reunion du comite du Conseil prive, approuvee par Son Excellence le gouverneur general le 10 decembre 1957.

Le comite du Conseil prive, a la recommandation du tres honorable John George Diefenbaker, premier ministre, recommande que:

M. Andrew Stewart, Edmonton, Alberta
Mme Dorothy Walton, Toronto, Ontario
M. Howard MacKichan, Halifax,Nouvelle-Ecosse
M. Romeo Martin, Montreal, Quebec
M. W.M. Drummond, Guelph, Ontario
M. Cleve Kidd, Toronto, Ontario, et
M. Bernard Couvrette, Montreal, Quebec

soient nommes commissaires sous le regime de la Partie I de la loi sur les enquetes, afin de:

(a) Enqueter sur la mesure et les causes de l'ecart qui existe entre les prix touches par les producteurs de denrees alimentaires de l'agriculture et des peches, et les prix payes par les consommateurs de ces denrees;

(b) Determiner si ces escarts de prix, en

general et dans certains cas particuliers, sont justes et raisonnables ou s'ils sont trop eleves par rapport aux services rendus;

(c) Formuler les voeux qu'ils jugeront utiles s'ils constatent que certains de ces ecarts de prix sont trop prononces; et

(d) Determiner si les renseignements dont on dispose actuellement sur les prix sont suffisants.

Le comite recommande en outre:

1. Que les commissaires soient autorises a exercer tous les pouvoirs enumeres a l'article 11 de la loi sur les enquetes;

2. Que, dans l'exercice des pouvoirs qui leurs sont accordes d'employer des conseillers, des specialistes et des aides, sous le regime de l'article 11 de la loi sur les enquetes, les commissaires puissent autoriser la remuneration de ces personnes et le remboursement de leurs depenses dans les limites et aux conditions que le Conseil du Tresor pourra determiner a l'occasion;

3. Que les commissaires adoptent la procedure et les methodes qu'ils pourront a l'occasion juger opportunes pour mener a bien leur enquete et qu'ils siegent aux moments et aux endroits, au Canada, qu'ils pourront fixer a l'occasion.

4. Que les commissaires soient aides dans la pleine mesure possible par les ministeres et organismes du gouvernement;

5. Que les commissaires fassent rapport au gouverneur en conseil;

6. Que M. Andrew Stewart exerce les fonctions

de president de la commission.

Le greffier du Conseil prive,

R. B. Bryce.

THE CHAIRMAN: I am now going to ask the Secretary to read the list of those presenting briefs during the Ottawa hearings. Prior to the presentation of briefs these documents are the property of the persons presenting them and following the presentation of the briefs the copies available are probably limited, but anyone who might wish to have access to the briefs either before or after presentation should consult with the Secretary, Mr. Dawson.

MR. DAWSON: Wednesday, November 12, (p.m.) National Sea Products Limited.

Thursday, November 13, Canada Safeway Limited; Loblaw Groceterias Company Limited; General Foods Limited.

Friday, November 14, Kellogg Company of Canada; Nabisco Foods Limited; Burns and Company; Canadian Labour Congress.

Saturday, November 15, Interprovincial Farm Union Council; Labour Progressive Party.

Monday, November 17, The Manitoba Sugar Company; Canadian Sugar Factories Limited, Canada Packers Limited; National Council of Women.

Tuesday, November 18, Co-op Union of Canada; United Packinghouse Workers of America; Canadian Association of Consumers; B.C. Packers Limited.

Wednesday, November 19, Retail Merchants Association of Canada; Quaker Oats Company of Canada

Limited; General Mills (Canada) Limited; Canadian Retail Federation.

Thursday, November 20, Kraft Foods Limited; Canadian Chamber of Commerce; Canadian Federation of Agriculture.

Friday, November 21, Canadian and Catholic Confederation of Labour; Canadian Whole Grocers Associ-
.2 ation; Coop Federee de Quebec; M. Loeb Limited.

THE CHAIRMAN: The brief to be presented this afternoon is presented by Mr. C.J. Morrow on behalf of National Sea Products Limited and also Ocean Fisheries Limited. We are very grateful to you for coming here this afternoon, Mr. Morrow. The Commissioners appreciate the return of the questionnaire which they sent to your company, and we are grateful for information contained in that. Those of us who live in land-locked provinces are grateful for any help we can get to make us familiar with the fishing industry, and I am sure you will be helpful to us. Would you present your brief now?

MR. MORROW: Thank you, Mr. Chairman. I have with me this afternoon Mr. Gordon O'Brien of the Fisheries Council of Canada to sit beside me and give me a little moral support.

I have been directly associated with the fishing industry in various capacities since 1917. I am now President of Ocean Fisheries Limited, Halifax, Nova Scotia, and also President of National Sea Products Limited - a wholly owned subsidiary of Ocean Fisheries. This submission will cover the

operations of Ocean Fisheries Limited and its subsidiaries and sub-subsidiaries, but will deal mainly with the production and processing end of our business.

I notice you have us down as National Sea Products Limited, but we thought it advisable to include the Ocean Fisheries Limited because our public statement and statements we have submitted to you are a consolidation of our entire operations and that is the only way that we can correctly give you the picture.

Our principal business is the production, filleting and freezing of Atlantic Coast groundfish (Cod, Haddock, Flounder, Ocean Perch, etcetera). We also produce smoked fish such as Smoked Cod Fillets, Finnan Haddies and Kippered Herring. Our newest venture is into the Cooked Fish Field. The chief product here is Fish Sticks.

We own and operate seven fish filleting plants in Nova Scotia together with nineteen large fishing trawlers. We also have in Canada a number of wholesale and retail establishments. We own in the United States one fillet plant and six large fishing trawlers.

In addition to handling the fish produced by our own trawlers, we buy all the fish offered to us by independent fishermen. In our 1957 fiscal year our own trawlers landed 82,238,180 pounds of fish (56.7 per cent) and we purchased 62,868,568 pounds from independent fishermen (43.3 per cent). I might say those figures are for our Canadian operations only and do not include the landings in

the United States. Our processing plants purchased about 6,000,000 pounds of processed fish in addition to the above. Our distributing houses handled several million pounds of fish in addition to the quantity supplied to them by our own processing plants, including fish from the Pacific Coast, inland lakes, and foreign countries.

We have given you in great detail figures and other information in answer to your questionnaire. I will try not to repeat too much of that information, here, but certain points should be highlighted.

The Fishing Industry on the Atlantic Coast of Canada has not attracted capital in the same way as many other industries. The chances for reward are apparently not great enough, considering the risks involved. Our own Company has been reasonably successful but the results the past five years have not been good enough to provide the funds we should have for the modernization or replacement of plants, equipment and fishing trawlers that become worn out or obsolete.

I do not mean by that we feel there e should be enough profits in it to provide all the new capital you might need for expansion, but I was just looking at some figures this morning and in one of our plants the capital expenditure the last seven years including trawlers and plant was something over $1,700,000. That particular plant is not landing as many fish today as it was before we embarked on that capital programme, and certainly

are not making the profits they were before we embarked on it. Trawlers are something that wear out very rapidly and we do feel there should be enough profit in the business with the depreciation and retained earnings to replace that type of equipment and also plants.

There were a few years following the War when margins were good. We retained in the business the greater part of our earnings in those years and built or bought several new trawlers. Had it not been for that we would be in a very bad way today for a supply of fish for our plants.

Competition has increased materially in recent years in the sale of Atlantic Coast fillets and the products thereof. Several filleting plants sprang up during the War and since. Many of these were built with the assistance of Government funds - (largely low interest loans). The newcomers to the business had to find markets and very often used price to break their way in. Governments (Federal and Provincial) have encouraged and aided the expansion of the production and processing end of the business but have done little to help promote an increase in the consumption of fish.

Just to cite an instance there, the Provincial Government of Newfoundland have invested by way of loans, low interest loans, something in the neighbourhood of $10 million or $12 million in shore plants to aid in the freezing and processing of fish but have not done anything that I know of to help

promote the sale of those fish. They just take it for granted there is a market for them.

Prices received by the fisherman for the principal varieties of fish in 1957, in our plants, were substantially the same as in 1949. Some varieties were a little higher - some a little lower. This is not necessarily true at all points on the coast. There were many places where the price to the fishermen was, I might say is, lower than we were paying.

Our selling prices of the principal varieities also averaged about the same in 1957 as in 1949. Labour and many other items entering into the cost of our finished products increased from 1949 to 1957. We largely absorbed the increased costs by a decrease in earnings, as you can see from our financial statements.

While prices to the fishermen have not improved very much during the period under review, I think it is fair to say that many fishermen on the Atlantic Coast are better off. I refer particularly to the so-called "shore fishermen". Years ago most of them fished from small boats and could only go short distances from port on fine days and made a very poor living. They have been helped by subsidies from the Federal Government and loans from Provincial Governments in the building of draggers and long liners, so that today they can have comfortable and efficient boats and make a good living.

The spread in price between what the fisherman received and what the consumer pays is,

in my opinion, not excessive. In the case of fillets of Atlantic fish the consumer is of course buying a very different product than the whole fish sold by the fishermen. There is, in some cases, as high as 80 per cent waste in the filleting of fish. On that basis in order to arrive at the cost of the finished product the price to the fisherman must be multiplied by five before the cost of labour, packaging and other expenses are added. In the case of Cod and Haddock the waste in filleting runs from 60 per cent to 70 per cent depending upon the size and condition of the fish. Our latest costs at one of our larger plants on cello-wrapped frozen cod fillets packed in five-pound packages, based on 40 per cent yield (60 per cent waste) is as follows. I might say that 40 per cent yield is a little higher than most plants average.

Raw Fish (4 cent price to fisherman)	10.000	cents
Materials other than fish, including packaging materials	2.163	"
Labour (incl. supervision)	4.163	"
Manufacturing Expenses	2.340	"
Selling Expenses	1.091	"
Overhead, including interest	1.368	"
	21.125	"
Depreciation	1.265	"
	22.390	"
Credit for Waste - manufactured into Meal	.750	"
	21.640	"

That credit for waste is the actual amount

we are presently receiving for the waste manufactured into meal after having deducted the cost of manufacture.

COMMISSIONER WALTON: A net?

MR. MORROW: Yes, that is a net price.

Our selling price in Canada at the moment is 21-1/2 cents pound. This is less than cost. The reason for this is a combination of things. Codfish have been scarce recently and we have made two increases in our prices to the fishermen. We have not as yet passed the second price increase on to our customers. On the other hand we are able to get higher prices in the United States. We also get higher prices for fresh (not frozen) fillets. Our present selling price for these in Canada is 25 cents pound. The risks in selling fresh are greater than on frozen, but the profit margin is usually better on the fresh. Our sales in Canada of fresh, however, represent only about 9 per cent of our total business. The above points up a fact that should not be overlooked when examining the pricing of fish. It is and always has been, as far back as I can remember, a business of averages. You take a loss on one variety or in one market and try to make it up on another variety or in another market. When a trawler or other fishing boat ties up to your wharf you must buy all the catch. There may be fish in the trip that you have to sell at a low price for one reason or another. You try to average this by getting a little better than normal mark-up on some of the remainder of the trip.

You may wonder at the statement that when a fishing boat ties up at your wharf you have to buy all the catch. You may have 250,000 pounds of fish in a large trawler and probably in a good many of the fishing ports there is only one buyer that can handle that boat, handle that amount of a catch, and therefore one buyer must buy it all. Aside from that, you could not say to the captain, "Well, we do not want your hake today", that is an undesirable fish, and sometimes they bring in a fair quantity of it. If you are going to keep the fisherman happy you have to take all of it, and do what you can with the undesirable fish.

I will not, in this brief, attempt to trace the price structure through to the consumer. You will undoubtedly be getting the required information from other sources. I feel very strongly that fish are not well merchandized. This is no reflection on our retail outlets. It is the industry's business to create the demand. This is not being done. The per capita consumption of fish has changed very little in the past 20 years. In fact in the United States it was lower at 10.2 pounds in 1956 than in 1940 when it was 10.6 pounds. In that same period the per capita consumption of meat increased from 142.4 pounds to 166.8 and poultry from 17.0 to 29.4 pounds. The yearly consumption of fillets of Atlantic Coast fish is less than 2 pounds per capita on this continent. This low rate of consumption does not encourage retail outlets to push the sale of our

products. We need, in my opinion, an intensive and sustained industry-wide campaign aimed at popularizing fish as a good tasty food - high in protein and easy on the waist line. We need more fish eaters in this country. Surveys made by the Dominion Bureau of Statistics in 1953 and 1955 showed a very high percentage of families with no expenditure for fish in the six cities surveyed. An increase in the consumption of fish would lower distribution costs.

I may have given the impression there that nothing is being done at all in promoting the sale of fish in Canada, and that is not altogether correct. We have, through Mr. O'Brien's organization, the Fisheries Council of Canada made a modest start in sales publicity and promotion, but it is only a very small drop in the bucket to what the industry itself should be doing.

Higher average prices are needed at the producing level to attract fishermen and capital. In the United Kingdom great progress is being made in building a modern trawler fleet through Government action in attracting capital to the industry. Our Government might do well to take similar action. One of the main appeals to capital in the United Kingdom is "Investment Allowances". This device, in effect, allows trawler owners to depreciate their boats to 140 per cent of their cost. The "Investment Allowance" of 40 per cent may be charged as an expense for income tax purposes the first year the asset is in existence. Depreciation on the full cost

of the asset can also be charged, not the first year. Something should be done to encourage the building of large trawlers if our fishing industry on the Atlantic Coast of Canada is to even hold its own. The "Investment Allowance" as introduced in the United Kingdom seems a sensible way to do this. A 12-month supply of fish is needed to operate processing plants efficiently and to properly develop markets for fish. Large trawlers are the only way plants can be served 12 months in the year. Our seasonal producers would not be as well off if it were not for the year-round producers keeping a supply of fish on the market week in and week out.

Our Government, in an indirect way, adds to our cost of production by making it illegal for Canadian trawlers over 65 feet in length to fish within 12 miles of our coast. Foreign trawlers fish within 3 miles of our coast and in certain seasons of the year get good catches between 3 and 12 miles off our shores while our trawlers are getting very poor catches outside the 12-mile limit - a ridiculous situation.

It is a long story, that 12-mile limit, and our shore fishermen, a good many of them still would not agree with me that a larger trawler should be allowed to fish in within 3 miles, but it remains that the Government subsidizes and encourages the building of trawlers of around 65 feet in length, and they are allowed to fish within 3 miles, but the larger boats must stay off 12 miles. I probably

should not go into it here, it started a good many years ago, 30-odd years ago, but the larger trawlers were accused of damaging gear and spoiling the fishing for the shore fishermen, and at the time the shore fishermen were very badly off. There may be some places along the cost today that if the larger trawlers were allowed to fish within 3 miles they would interfere with some of the shore fishermen, but I cannot see that they would interfere with them any more than the foreign trawlers that operate 65-foot boats.

It is my opinion the primary producer would be better off if there were fewer processors. According to the Dominion Bureau of Statistics in 1956 there were on the Atlantic Coast of Canada 434 processors of fish with a marketed value of their products of $88 million or about $200,000 per plant. I am just wondering if the arithmetic is right there. This takes in all kinds of fish - filleted, canned, salted, etcetera - but the volume is too small for the most efficient operation. Plants with a small turnover are not going to develop new methods or new products, which must be done if we are to hold our place in competition with other food products. Small operators usually have not the knowledge of markets that larger operators have. Very often the small plants will not have ample capital to carry inventories through temporary periods of glut. Many small plants, too, are seasonal producers and receive their production during the season of lightest demand. These factors

tend to create a buyer's market and in times of even a very small over supply, prices are depressed to a level lower than necessary. I firmly believe the industry and particularly our fishermen would be better off if the processing and marketing were in stronger hands. A higher average level of fishermen's prices is necessary. An increase of one cent per pound in the price to the fishermen would mean an increase in earnings to our average trawler fishermen of nearly $1,000 per year. It would mean an increase in the price of fillets at the retail level of five or six cents pound, or at the most an average of 15 cents per capita per year.

I am not advocating there the closing up of a lot of small independent producers, but I am very firmly convinced, and I have said this publicly both in the United States and Canada on many occasions that we as an industry do not do a good job of marketing and part of our trouble is the fact there are so many small independent processors in the business.

The statements I have made are not very helpful in narrowing the spread between the price the primary producer receives and the price the consumer pays. The per capita consumption in Canada of fillets of Atlantic Coast fish is less than three pounds per year. The price spread cannot be too important to the consumer even though he eats much more than the average. Therefore I presume the person you are most concerned about is the primary

producer. Is he receiving his fair share of the fish dollar? I am satisfied that as far as our own company is concerned - he is. You have our statements and other information and will come to your own conclusions.

I firmly believe that the fishing industry on the Atlantic Coast of Canada is not keeping pace with other food industries in Canada. It should and can be a better industry for the primary producers, the processors and the distributors of fish. To summarize:

(a) The per capita consumption of fish in Canada is too small and has not grown to any extent over the years. Generally speaking fish (except canned salmon) is not merchandized as well as most food products.

(b) A long term industry wide program is needed to promote the sale of fish and to educate the public on the good qualities of fish and also as to the best methods of cooking it. I am referring to a program much more intensive than we have at present.

(c) Profits are not large enough, having in mind the risks involved, to attract capital to the industry in the same way as it is attracted to other industries. Increased consumption would mean a larger volume for processors and distributors and would encourage distributors to place more importance on their fish sales.

(d) A higher level of prices is needed to attract fishermen to the industry and to encourage

the investment of capital in the implements of production.

(e) The Government of Canada can help by gradually stepping up their inspection service to the point where there will be no fish of indifferent quality on the Canadian market; by continuing to increase the number of home economists in the Department of Fisheries and thus do more educational work with institutions, public eating places and the public generally; by legislation that would be the means of encouraging the investment of capital in the industry, particularly in the implements of production - this could be done by allowing depreciation in excess of the original cost to offset increased replacement costs. To achieve this "Investment Allowances" such as are used in the United Kingdom are suggested.

THE CHAIRMAN: Thank you, Mr. Morrow. We, I am sure, would like to ask a few questions and I will ask Dr. Drummond if he will start.

COMMISSIONER DRUMMOND: Mr. Morrow, in your third paragraph you indicate there that you own and operate several plants in Nova Scotia and a considerable number of trawlers and also that you have in Canada a number of wholesale-retail establishments. This would appear to indicate that your operation is a pretty completely integrated one in producing and directing the consumption, is that correct?

MR. MORROW: Yes, it is except that the

distributing houses that we own handle actually a very small percentage of our total production, of the total production of the processing plants.

COMMISSIONER DRUMMOND: A small percentage of your own production?

MR. MORROW: Yes, the total they would handle would be very small compared with our total production. We depend, in other words, we depend more on our independent distributors both in Canada and the United States than we do on our own houses.

COMMISSIONER DRUMMOND: I notice you do buy some fish processed which is caught by other producers, is that correct?

MR. MORROW: You refer to the process fish we buy?

COMMISSIONER DRUMMOND: Yes.

MR. MORROW: Oh yes, we do to fill in when we are short of certain varieties ourselves, we buy from our competitors or other producers. The total amount we purchased in 1957 I think was around 9 million pounds.

COMMISSIONER DRUMMOND: I was thinking of what you mentioned in the next paragraph where you say you purchased 43.3 per cent from independents?

MR. MORROW: Yes, that is right.

COMMISSIONER DRUMMOND: Now, you made very considerable, it seems to me, of this claim that the industry simply is not being sufficiently remunerative to attract capital and yet despite that there is another one later on indicating that in

your opinion you have far too many plants, too many small plants, 434 or something plants. Now, at first glance at any rate this would suggest to an outsider perhaps that this industry has been so remunerative that it has attracted altogether too much capital. How does this apparent contradiction explain itself?

MR. MORROW: Well, up until very recently it was very easy to get in the processing end of the fish industry on the Atlantic coast. Perhpas, before getting into that I should say that all these 434 plants are not in our line of business, I mean I think I do say there that it includes canneries and other types of processing other than what we are doing. Up until very recently, as I say, it has been comparatively easy to get in the processing end of the fish business, all you needed was to rent a shed on the end of a wharf and have a table and a few knives and buy a few boxes and you could ship fish to markets, particularly in the United States.

COMMISSIONER DRUMMOND: In other words, it was a type of undertaking that did not require capital?

MR. MORROW: That is right, and in my opinion a good many of the smaller processors today have insufficient capital to properly carry on.

COMMISSIONER DRUMMOND: First, have you any concrete suggestion as to how a large number of these smaller ones could be eliminated, as you suggest they should be?

MR. MORROW: No, I haven't. We are rugged individualists on the Atlantic coast, particularly the people in the fish business. I don't know whether time will do it. What is needed more than anything else is to help these people do a better job of marketing, and everybody would be better off. If some ways or means would be found of helping them out, particularly in times when the supply is greater than the demand ---

COMMISSIONER DRUMMOND: Your general feeling is that the great majority of these relatively small plants are inefficient because of their smallness?

MR. MORROW: Yes, in many ways, and in other ways I suppose their costs are lower than what we like to call an efficient plant, because the owner will be working, himself, at the actual manufacturing.

The time is rapidly approaching when they are either going to have to get into business in a larger way on account of the change in merchandising, or -- I don't know if I have pointed that out here as much as I have in answer to your questionnaire. It is not too many years ago that most of our fillets were merchandized in what we called bulk; that is, packed in a 15-pound box and shipped in that way; or, in a 20-pound box if they were shipped fresh. Today that has greatly changed: we still sell quite a large quantity of 5-pound package, but it is rapidly growing to a

one-pound or even a twelve-ounce package in some cases, and, in more expensive items, smaller packages. If you go to the frozen food counter today you will not find much in more than a one-pound package.

COMMISSIONER DRUMMOND: The point is that so many are not producing them?

MR. MORROW: A good many are not.

COMMISSIONER DRUMMOND: In spite of all their difficulties they apparently have been able to survive?

MR. MORROW: That is right.

COMMISSIONER DRUMMOND: What is your general explanation as to why they have been able to survive?

MR. MORROW: Well, of course, the fish business is one of very fast turnover, and if you are nimble enough you can adjust your buying, and so on, to the change of markets. While there have been a good many fallen by the wayside, usually somebody springs up and takes their place.

COMMISSIONER DRUMMOND: I take it that the great majority of these firms are simply not in a position to actually compete against a firm such as your own?

MR. MORROW: Well, what is developing now -- this 434 process, I think, is perhaps not the best illustration I could have used. I probably should have stuck to the fillet plants, because the 434 includes lobster canneries and canneries of sardines or other fish, and smokers in the New Brunswick area, and so on. I picked the figure up from the DBS, and it is perhaps leading us astray on our own type of operation. The smaller plant in our own type of operation today is developing

a new type of business that is helping the market somewhat, and that is that he is co-packing, or, packing a private label for somebody in the United States, for instance; probably a processor in the United States who has not got enough supplies, himself, and he has come to the Atlantic provinces of Canada to get some of his own brand packed, and that has changed the situation a bit. In my opinion, it is not a sound development, because if "X" company in the United States suddenly finds it has all the supplies it wants for this year, or it has taken a trimming and they have paid and carried it over to the next year, that plant will be out of luck.

COMMISSIONER WALTON: Isn't that true generally, though? You indicate in the fresh fillets, the Canadian market only absorbs 90 per cent ---

MR. MORROW: Of our own sales.

COMMISSIONER WALTON: What would you say on the frozen market the Canadian ---

MR. MORROW: Well, what I am trying to illustrate is that this type of operation -- if small operators place themselves in the position of depending entirely upon some United States distributor or processor to take his catch under that distributor's brand, and that distributor suddenly decides he doesn't need them, he has not an established market, we, in our case, while we pack some private brands too, we have an established market for our own brands.

COMMISSIONER WALTON: But it was my understanding -- and I will exclude salmon -- that a great

many of the Atlantic fish -- a larger proportion was bought up by the United States, and the Canadian market was the small proportion, and I think evidence has been given to us from time to time that the Canadian market really didn't influence the price, but it was the American market. Would you support that?

MR. MORROW: Well, that is true to quite an extent. Certainly, since Newfoundland has come into the picture the percentage of Canadian frozen fillets going to the United States market has increased very materially, and I think you will probably find today that close to 80 per cent of all fillets produced on the Atlantic coast of Canada are marketed in the United States.

COMMISSIONER DRUMMOND: Going on to your paragraph 8, Mr. Morrow, first you say competition has increased recently, and then you also state that several plants have come into existence during and since the war. Even though they have been given some governmental financial assistance, I am wondering how they happened to come into existence if the business is not considered a paying business or an attractive business?

MR. MORROW: Well, to go back to the war period, the production of frozen fillets was encouraged by England, or the U.K., needing a supply. Newfoundland at that time was not a part of Canada, and they started supplying te U.K. with some of their requirements. We here, in this country, through an Order in Council, were obliged to pack a certain percentage of our total pack for the U.K., whether we wanted to or

not, and when the war ended -- that, to start with, encouraged some plants, particularly in Newfoundland -- when the war ended, with a good many of the fishing trawlers in all countries of the world having been taken over for war purposes, taken over by the Navy, and for other reasons, there was an actual shortage of fish for a few years, and that encouraged new producers to get into the business. Then, a few years ago in the United States, when fish sticks, the cooked fish sticks, was developed -- it is made out of frozen fillets or fillets that are packed in a block and frozen and then sawed or cut into the shape of the sticks, and there was a great upsurge for a short time, and everybody thought all they had to do, including the Government of Newfoundland, was to build a freezing plant and you were away. They were trying to get away from the salt fish business and get into what they thought was a safer and sounder business, but, in doing that -- and I have forgotten the figure -- but I think it must be $12½ million that they put into these plants, and in a good many cases the owners themselves had very little money, and they have now plants that have not been successful. As a matter of fact, I don't think that the interest on those loans has been paid; it may have in one or two cases, but it is public property and there are questions asked in the local House every year and answers given. The last time I saw it, I don't think anybody had paid the interest, let alone anything on the principal. There are two plants built in this way that are not operating today: one was a terrible

failure as far as the creditors and the bondholders went -- the one at Fortune Bay; and the other one the Government of Newfoundland built into the sea has never turned a wheel -- and I would love to have a plant somewhere in Nova Scotia -- but they must have spent a million and a half dollars there, and it has not turned a wheel.

COMMISSIONER DRUMMOND: Is your conclusion that apart from the special exigencies of wartime demands it has probably justified plant expansion at that time?

MR. MORROW: And the postwar demand.

COMMISSIONER DRUMMOND: Are you inclined to feel that postwar demand for fillet was unjustified?

MR. MORROW: Oh, no; it was justified, except you didn't have the producing facilities to meet it, and I guess there were not many food products in over-supply at that time.

COMMISSIONER DRUMMOND: You state that these new plants reduced price to break their way into the markets?

MR. MORROW: That is true.

COMMISSIONER DRUMMOND: I am wondering what that means?

MR. MORROW: I should have made that clear: I am referring principally to the United States market there. That is not so true in Canada, although it is to some extent. A good many of these plants were built by people who had not been in the frozen fish business before; they had been in the salt fish business. They

had to find a market somewhere and, usually, the way you found it was by underselling the going price -- probably little different from any other industry.

COMMISSIONER DRUMMOND: What I would like to know is whether or not once they broke their way in, they ceased to use this so-called price appeal?

MR. MORROW: That depended on supply and demand. I don't remember what year it was, but Mr. MacKichan would remember -- but, not too many years ago -- four or five -- when the inventories built up very high and some of the newcomers to the field sold fillets of cod in the United States as low as 10 or 12 cents.

COMMISSIONER MacKICHAN: 1955.

MR. MORROW: 1955; and that is not much more than the payment for their packaging, labour, duty and transportation.

COMMISSIONER DRUMMOND: When you say "competition has increased materially" are you thinking of the addition of these new firms, or of more intensified price competition, or more intense competition in some non-price form?

MR. MORROW: I am thinking more of the number of people that have come into the picture on this continent. Again, I am not confining that to the Canadian market. Perhaps I should have done. However, in addition to what has happened in Canada -- and this has a bearing on prices and markets for our products -- we have competition from Iceland, Norway, West Germany, England and Denmark on the United States

market that we never had before the war.

COMMISSIONER DRUMMOND: So that is part of the more recent competition?

MR. MORROW: That is right.

COMMISSIONER DRUMMOND: I was interested in paragraphs 9 and 10: it seems to me that it has come to this, that you are selling -- at least, your price of fish went up and the price at retail was substantially the same both in 1949 and 1957, which is another way of saying that the spread remained more or less constant?

MR. MORROW: I am sorry, I would not go so far as to say the price at retail, because I haven't that information. Our own selling price -- and we would assume the retail would be about the same.

COMMISSIONER DRUMMOND: You say your own selling price averaged about the same?

MR. MORROW: Yes.

COMMISSIONER DRUMMOND: And you said that you largely absorbed the increased costs by reducing your earnings?

MR. MORROW: That is true.

COMMISSIONER DRUMMOND: Well now, does this mean that the increased costs were small, or that the earlier earnings were large?

MR. MORROW: Well, as I think I stated in my brief, we did have very good earnings, and if you will examine our statements that you have you will see they were very good -- or, we thought they were good -- in the period immediately following the war and up to about 1953. In 1953 they went way down.

COMMISSIONER DRUMMOND: So you had a good deal of leeway there?

MR. MORROW: Yes, we had a fair amount of leeway there. I might say all of those earnings didn't come from the sale of fish. In the earlier days we had shares in a good many fishing vessels, very few of which we controlled ourselves. However, we used to receive dividends from the earnings of these fishing vessels, sometimes in excess of $1 million,and they have gone out of the picture now.

COMMISSIONER DRUMMOND: On page 2, the top paragraph, you indicate the present view that a lot of the shore fishermen are in a lot better economical condition today than they were, and you mention they have been helped by subsidy from the Federal Government and loans from the Provincial Government in the building of draggers and long liners: do these improved living conditions come from their ability to sell more, or is their improved condition simply as a result of their being given something?

MR. MORROW: They have been provided with a better employment of production, and they can catch more fish per man. Before the government started to encourage them to get better equipment for themselves, some of them had very poor equipment and they were fishing one or two men to a boat, and they could only go a short ways off and only on very fine days. Whereas, when they were encouraged through subsidies and through loans, under the Provincial Fishermen Loan Boards in Nova Scotia -- and I think Nova Scotia had the

first one, and it is now in New Brunswick and Prince Edward Island also, I believe -- they could, by putting up very little money of their own, get a very fine boat and go off and fish with any boats, and fish on days they would never have dreamed of fishing on before.

C
JC:iz
11/12

MR. DRUMMOND: So this improved equipment has permitted them to increase productivity per man?

MR. MORROW: Yes.

COMMISSIONER DRUMMOND: And has improved their economic position?

MR. MORROW: Yes.

COMMISSIONER DRUMMOND: Would you conclude from that, I take it, this particular form of subsidy is working well?

MR. MORROW: Yes, I would say so.

THE CHAIRMAN: Mr. Morrow, we have no other brief this afternoon and I am not sure how many other questions my colleagues may have, but if you would like to take a break now I think we would be quite happy.

MR. MORROW: It is all right for me to continue unless you wish to recess. I don't mind. Thank you very much.

COMMISSIONER DRUMMOND: On page 3 you refer there to the importance of continuity of operation?

MR. MORROW: Yes.

COMMISSIONER DRUMMOND: And the fact that in very many cases you just have not got sufficient continuity; then you follow that up by speaking -- I don't think I will go into that point. You mentioned it was a long story. What I was going to ask you was whether in your opinion anything could be done about what you call "this ridiculous situation"?

MR. MORROW: Well, I just will say a few words on that. Our Government has been endeavouring now in the last few years to bring about international

agreement on the twelve-mile limit for fishermen.

We would all be happy if that could be done. We have no kicks about that but until such time as that is done we think that our larger trawlers should at least have the same privileges as our United States friends have or Icelandic or somebody else who may want to come in. It is mostly the United States who come in. I think there were some European trawlers inside the twelve-mile limit this year or last year; this year, I guess it was. That is not common. We do get United States trawlers.

All we are saying is, till you are able to bring about an international agreement, for goodness sakes, let us have the same privileges as the United States has in our waters.

COMMISSIONER DRUMMOND: I don't think there is anything a Commission such as this can do about that.

MR. MORROW: No, I am not suggesting that.

COMMISSIONER DRUMMOND: That is all.

MR. MORROW: I do think it does add to our cost of production. I think we could catch more fish in certain seasons if we were allowed out.

COMMISSIONER DRUMMOND: Just one other question. You mentioned in one or two places here -- you gave statistics showing that here and in the States the per capita consumption of fish is lamentably low. To your knowledge are there countries where the very opposite situation in regard to per capita consumption exists, where it is very high?

MR. MORROW: Well, the United Kingdom is

very much higher than ours. Of course some of the other countries, the Japs are very big fish eaters and the Scandinavians are too. However, the United Kingdom has always been very much heavier on fish consumption per capita than this side of the water.

COMMISSIONER DRUMMOND: What I am thinking about is whether or not the international evidence is such as to indicate that this many-sided campaign which you suggest would really have a good chance of really being eminently successful.

MR. MORROW: I didn't get the first part of your question.

COMMISSIONER DRUMMOND: I was just wondering whether the evidence or the actual figures showing the per capita consumption of many other countries, and particularly in countries which are more or less comparable to our own, whether this evidence is such as to suggest that a campaign to the extent such as you suggest would have a really good chance of really succeeding.

MR. MORROW: I think again the only country that has done anything at all, about which we know, at least, and which has had some results -- I am not too familiar with them and perhaps I should not talk about it -- is the United Kingdom, where they have from time to time had campaigns. I do not know that they have had any sustained campaigns.

In the United States some years ago they had a very large inventory of ocean perch in Gloucester, which is an ocean perch port -- they voluntarily assessed themselves -- I don't remember the figures --

I think it was 5 cents per 100 pounds, or something like that -- of the fish that came over the wharf and put that in an advertising promotion fund and they definitely saw results from that particularly drive.

They had a drive to keen up that interest and they did it, so it can be done. I haven't any doubt about that.

COMMISSIONER DRUMMOND: Do you say you actually feel it would increase the per capita consumption of fish in this country to anything like the same degree as has been done in the case of beef?

MR. MORROW: I wouldn't be that hopeful, but even if we could increase it one pound per capita in a two or three-year period it would be a big help.

COMMISSIONER WALTON: Do you think the new packaging job that has been done in the last three or four years, particularly in the frozen fillets and other types of fish, which has been more attractive to the consumer, that has had any bearing on the increased volume or per capita consumption?

MR. MORROW: I would say apparently all we have done is hold our own.

COMMISSIONER WALTON: You mean you might have lost it if you had not made the fish a little more pretty?

MR. MORROW: Yes. Of course, the big change in the merchandising of fish in the larger centres such as Toronto today -- it is very difficult to find many stores handling strictly fresh fish. They are all selling frozen fish and probably a good many people who are in the habit of buying fresh fish have a prejudice

against frozen fish and perhaps that is why we only held our own.

With the attractive packaging job, and certainly they are well displayed in the chain stores particularly in frozen fish cabinets, you would almost expect to see an increase.

Another illustration that was very discouraging was this huge increase in the sale of fish sticks in the United States, a new product, which went up as high as, I think, one year, seventy million pounds and the overall consumption of fillets, including fish sticks, hardly changed per capita and so it looked as if people just switched from eating fillets to eating fish sticks.

There are a lot of people will tell you personally, well, I don't like fish and my children don't like fish but they will eat fish sticks, so we must have been losing out somewhere.

COMMISSIONER WALTON: I notice that you made two references and they seem to be at variance with one another. You say "I feel strongly fish are not well merchandized and that there is a need for an intensively sustained industry-wide campaign." That is one observation. Then you say "The governments have done little to promote an increase in the consumption of fish." Well, do you think that it is proper for the governments to promote the consumption of any produce ---

MR. MORROW: No.

COMMISSIONER WALTON: Fish is competing with eggs and poultry ---

MR. MORROW: No. What I was trying to

bring out there and probably did it rather poorly was that the provincial governments particularly, not the federal, encouraged the production of fish and processing of fish and to a very large extent ploughed a lot of money into it in a very short time.

COMMISSIONER WALTON: To help the primary producer?

MR. MORROW: Yes, to help the primary producer and processor but with actually no regard for the marketing end, that they should find markets. They thought there was a market there but they didn't go into it deeply enough. We have run into some very serious situations in the last few years with excess fish.

THE CHAIRMAN: How do you escape from this dilemma, that you want to help the little fisherman improve his income so you subsidize his production through those and he produces more fish and the price falls and therefore everybody is worse off. Do you have any solution for that?

MR. MORROW: Sure, increase our markets or increase consumption.

COMMISSIONER WALTON: But you must compete on the same medium as other products. Everybody is trying to entice us to eat other things too.

MR. MORROW: Fish is as good as many other food products, we think, and if we had an increased production ---

COMMISSIONER DRUMMOND: Can you really increase that consumption significantly without reducing your retail price?

MR. MORROW: Oh, I think you can. I think that it is an educational job as much as it is anything else. Fish, properly prepared, is a good food and you have to appeal to the ladies who are watching their waist lines and many of us men who are watching our waist lines, because I don't think we have done anything except the little effort that we have done by the Fishermen's Council of Canada to popularize fish or educate the people on what a good product it is.

A good many people are prejudiced and perhaps for a good reason.

COMMISSIONER DRUMMOND: In other words remove prejudice and remove ignorance and all will be well?

MR. MORROW: Well, it is a long-range programme and you are not going to do it overnight. We do not even know where to start. A few of us have been trying the last two or three years to get all the producers who sell fillets in the United States to throw something in the pot and put on a really worthwhile campaign over there where you have got a big market to work on, and we started by suggesting that we put a cent a pound in the pot and that might mean an increase of two cents to the consumer, but then everybody felt that -- we consulted some of the chain stores over there, some of the very largest distributors, and they thought that would not interfere with the sale one little bit. They were all for it but we couldn't get agreement among the industry itself in Canada. I might say we did have about 90 or 95 per cent of our producers willing to

8

do it but we couldn't get agreement in England and we couldn't get agreement with Iceland.

COMMISSIONER WALTON: Is it true the American price really affects the Canadian price?

MR. MORROW: To a large extent, yes. To a very large extent. In our own case -- in our own company -- not so very much as some of our competitors who perhaps do not cater at all to the Canadian market.

COMMISSIONER WALTON: Therefore an actual increased Canadian volume is not going to be a major factor?

MR. MORROW: No.

COMMISSIONER WALTON: In decreasing the price spreads in Canada, is it?

MR. MORROW: Of course, if you increase or get our people to eat another pound of fillets per capita in the next three or four years or even five years it would mean forty-five to fifty million pounds of fish which would be taken care of, which is quite a fair catch of fish, of round fish.

COMMISSIONER COUVRETTE: On that question of the possibility of more consumption of fish, what about the quality of the product? Would you consider that the product is regular as far as quality is concerned or is it very steady?

MR. MORROW: The quality in the past has at times left a lot to be desired. At the present time it is very good and in the future we are hoping it is going to be even better because commencing within a few months we are going to have strict inspection by

the government.

Some of those that have thought, "Well, this is good enough," won't be able to continue to think that if they want to keep their product on the market. They will have to conform to government standards and government inspection.

COMMISSIONER WALTON: Will it be so labelled right through to the consumer?

MR. MORROW: No, it doesn't go through to the consumer. At the start it starts with the fishermen and in the plants. There are standards being laid down for plants themselves which will help considerably, and also standards for quality and I think, commencing April 1st, those who qualify will be able to use Canada Inspected Maple Leaf as an insignia to show it has been passed -- the product and plant has been passed by the Bureau and you will have continuous inspection by government inspectors at the plant.

COMMISSIONER COUVRETTE: Would quality include the taste? What I mean is, would it be possible that that quality product would not taste as good one day as another day?

MR. MORROW: I suppose that that is possible. Fish coming sometimes from one bank may not taste exactly the same as fish from another but other than that there wouldn't be too much variation in the taste.

COMMISSIONER COUVRETTE: You could bank on the fish by the taste. May that not be one of the main reasons why the fish consumption has not gone higher?

MR. MORROW: I think it has retarded -- I think the indifferent quality has retarded or perhaps I should say the not uniform quality has retarded some of the fish in the past. We are hoping that is going to be eliminated in the future.

COMMISSIONER COUVRETTE: I hope so for my own waist line. I would have fish more often if I was sure I would get good quality.

MR. MORROW: Are you always sure you are getting a good steak when you buy it?

COMMISSIONER COUVRETTE: Well, honestly speaking, I think that there is less difference in taste between steaks than there is between fish. Thatis only a personal opinion.

MR. MORROW: Yes.

COMMISSIONER COUVRETTE: You mention in your first paragraph about subsidiaries. Do you have any idea of how many subsidiaries you have?

MR. MORROW: We have given you a complete list of those in answer to your questionnaire. Well, National Sea Products is, as I said, a wholly-owned subsidiary of Ocean. Ocean is the top holding company. It is not an operating company.

COMMISSIONER COUVRETTE: Can you give us just the number?

MR. MORROW: Yes. I was just looking down here. A good many on our list that I have given you are divisions of National Sea. They are not subsidiaries so I was just looking to see which were subs and which were not.

COMMISSIONER COUVRETTE: In other words, what I am trying to get at is, would it mean anything to consider the number 434 or something?

MR. MORROW: No, we only have operating subsidiaries today. We only have about four or five. We did have several more at one time. In all today we have 25 places of business in Canada of one kind and another. Some of them are only sales offices with one or two people in them and in 1949 we had 33, so we are decreasing rather than increasing the number of actual places of business.

COMMISSIONER COUVRETTE: Just one more question.

MR. MORROW: Our financial statements, of course, do include any American operations that we have had. In 1947 we bought a plant in Rockland, Maine. In February 1947 we bought that plant and it only started operating in May. Our fiscal year ends on the 1st of August so we only had that in operation for four months for that fiscal year.

COMMISSIONER COUVRETTE: Just one more question. In paragraph 12, the last part there, is that the proper meaning there that you are selling codfish at a loss on the Canadian market?

MR. MORROW: That is that one particular variety or package, the five-pound cod. I just happened to get actually some new cost sheets. We have spent a good bit of money recently on getting into our costs, having them detailed a little better than we have had in the past.

We have an outside organization working on

that. I just happened to get this particular sheet and gave it as an illustration. I can give you several others if you would like. That is the only one, that one variety of fish.

I do not mean to try to tell you that we are selling all our fish on the Canadian market at a loss. That is not true.

As I say, that same type of fish, the same variety of fish done in a different way has been sold at a profit, and it has been sold at 25 cents a pound.

COMMISSIONER COUVRETTE: Thank you.

COMMISSIONER WALTON: Well then, this is just this business of averages you were speaking about?

MR. MORROW: That is right.

COMMISSIONER WALTON: You mentioned in your own particular plant that a boat came in, it might have some fish you did not particularly want, but you take the whole load: Is this true of some of the smaller processing plants also, or are they selective?

MR. MORROW: No, that is true of any fish plant, if they buy any fish from a boat they must take it all.

COMMISSIONER WALTON: Thank you.

COMMISSIONER MacKICHAN: Mr. Chairman, I might say that I have thoroughly enjoyed the education of my colleagues on fish. I am going to be strictly a Commissioner and not get into the second part of the fourteenth item.

THE CHAIRMAN: Mr. Kidd, have you a question?

COMMISSIONER KIDD: Yes, on the question of competition as between fish and other food products at the retail level. Mr. Drummond brought up the question in one way, but have you done any studies that would indicate there is a price ratio between fish and meat products that would entice the customer to buy more fish. Shall I put it another way, supposing a consumer goes into a store and sees fish at 65 cents a pound, and beef at 75 cents a pound, which one is he likely

to buy?

MR. MORROW: We have not done any research on that at all, but we do know that when the price of beef is very high we notice the demand for fish is usually a little better than when the price of beef is low.

COMMISSIONER KIDD: You mentioned in the U.K. there was a better market for fish, have you any knowledge of the relationship there in regard to the price of fish and meat could bring?

MR. MORROW: No, I have not.

COMMISSIONER KIDD: Some of these questions have been asked before in different ways, but you mentioned the large number of small processors and how some of them broke into the market through price --?

MR. MORROW: Not always.

COMMISSIONER KIDD: I recall in Nova Scotia that we heard that your company comprised quite a large segment of the total production, and I recall that we asked the spokesman there if he could give us any idea of the proportion of the market that National Sea Products produced, could you give us anything on that?

MR. MORROW: I think I can answer it in this way, that I do not think that I have with me any figures that would give you the exact answer to your question, but I think it would be fair to say that in the type of business that we are in that we have about one-half of the processing of fillets and so on in Nova Scotia, but not on the Atlantic coast. Mr. O'Brien has suggested that we give you the total landings here and your staff could probably check that against the total

landings from the Department of Fisheries.

COMMISSIONER KIDD: I am just wondering what degree of competition some of these small inefficient operators that you mentioned offer to you. You mentioned in your statement that the producer would be better off if there were fewer processors.

MR. MORROW: The way it works out in the fish business and probably in other businesses too, for instance our price on five-pound packages of cod fillets today is 21-1/2 cents in Canada, a competitor offer 20 cents, and he may ignore that, but when somebody meets that 20-cent price you have two with the 20-cent price and after a while the pressure gets so great thatif you want to hold the customer you have to get down and meet it or come very close to meeting it and that happens continually.

COMMISSIONER KIDD: If there were fewer processors, do you think the price would go up?

MR. MORROW: Well, I think it would at least stay firm. I think in the end the fisherman would be better off, and I think he would have some advance in price, but I think that is desirable.

COMMISSIONER KIDD: You would not have anything in there as to the high price to the consumer?

MR. MORROW: Oh yes, he is the final boss.

THE CHAIRMAN: Thank you very much Mr. Morrow. As Mr. MacKichan said, he has enjoyed the process of education.

MR. MORROW: I do not know whether I have been very helpful, but I am very glad to co-operate in

any way we can. Any further questions that you wish to ask we will be very glad to furnish any information we can.

THE CHAIRMAN: The Commissioners have not yet been able to look at your questionnaire and it may be that the staff may have some technical questions that they wish to ask.

MR. MORROW: We would be most happy to answer them.

THE CHAIRMAN: We stand adjourned now until 10 o'clock tomorrow morning when we have the Canadian Safeway brief.

--- Whereupon the hearing adjourned until Thursday, November 13 at 10 a.m.

Dorothy Walton

ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.: 23

DATE: NOV 13 1958

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865

ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products resumed at 2.00 p.m. on Wednesday, November 12th, 1958, at Ottawa, Ontario

---

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary	John Dawson
Assistant Secretary	A. A. Caron

Thursday,
November 13, 1958.

Submission of

CANADA SAFEWAY LIMITED

Appearances:

Mr. Walter J. McCann   President

THE CHAIRMAN: The brief this morning is on behalf of Canada Safeway Limited and Mr. W. J. McCann is here to present it. Mr. McCann, would you care to read your brief now, and then there will be some questions.

MR. McCANN: Yes, thank you, Doctor.

Dr. Stewart, Mrs. Walton, members of the Royal Commission on Price Spreads of Food Products, in response to letters of July 21 and August 13 from your Chairman, Dr. Andrew Stewart, I am happy to submit the accompanying statement by Canada Safeway Limited.

In summary, we believethe following major points are particularly worthy of the Commission's consideration:

1. The present structure of Canadian food production, processing, and distribution, when viewed in proper perspective, will be seen to be merely the present stage in a progressive evolution of agricultural marketing.

2. In concept, the "spread" between farm and retail prices of food products should be viewed not as

an arbitrary "assessment" taken out of consumer expenditures or producer returns, but rather as an index of competitive market valuations placed upon the form, time, and place utilities which are added to the farm product as it moves through the marketing system.

3. Statistical measurements of over-all farm-to-retail food price "spreads" should include a proper matching of farm and retail products, with appropriate adjustments for equivalent farm and retail quantities, and allowances for by-product values. Evaluation of historical trends in price "spread" data should:

(a) Cover a long enough span of time to permit a proper perspective with regard to "balanced" price relationships, and temporary departures therefrom. Yet,

(b) Recognize that changes occur through time in the nature of the raw and final products themselves, in the services offered along with the products, and in the underlying supply, demand, and cost factors influencing their production and marketing.

The statistical record indicates that farm-to-retail price "spreads" for foods have broadened since 1949-51. In recent years, however, less of the consumer food dollar has gone into the food marketing "spread" than before the general advance of wages, costs, and prices that began in World War II. Yet today, these "spreads" include more and improved services and conveniences.

4. With the exception of certain governmental

programmes, prices, mark-ups, and "spreads" throughout the Canadian food marketing system are the results of intensely competitive forces. There is no private group which does -- or could -- so "control" or "dominate" demands or sources of supplies as to arbitrarily "determine," or even importantly influence, the levels of prices.

5. Retail mark-ups on foods do and properly should vary by items, by commodity groups, by sellers, by market areas, and from time to time. Flexible variable mark-ups result from the retailer's buying and selling in competitive markets. Retail pricing is not a matter of simply applying predetermined, rigid mark-ups to merchandise costs.

6. Modern merchandising practices are competitive adjustments to a broadening range of consumer demands and to technological advances in food production and marketing. Larger retail stores, improved facilities and equipment, wider assortments of items, and various promotional activities are examples. Some may increase the retailer's total costs of doing business, and hence appear to increase the "spread" between farm and retail prices. But most of the additional conveniences and services are provided because the modern consumer demands them and proves by his patronage that he is willing to pay for them. It is through competitive selection of those merchandising practices which best satisfy consumer wants that the retail grocer obtains the volume necessary to lower unit costs, or "spreads," in food distribution.

7. Wages of food retailing labour must be

competitive with those in other fields where technological advances have been more pronounced. Grocery retailing, however, is not as amenable to assembly-line and other mass-production techniques as are most production processes. Thus, in Canada Safeway -- and we believe in food retailing generally -- hourly wage rates and "fringe benefits" have risen more over the past decade than have grocery prices or physical volume. Although it may not be clearly shown in such measures of physical "productivity" as pounds handled per man-hour, we believe that progress has nevertheless been made in improving labour efficiency in grocery retailing. Efforts in this direction have limited the increases in unit labour costs and thus have curbed the broadening of the retail labour component of farm-to-retail price "spreads."

8. Profit rates in food retailing, as in other industries, must be sufficiently adequate, sound, and secure to attract that investment of private capital which will permit further expansion and improvement of efficiency in food distribution. Although gross profit rates in food retailing have broadened somewhat since 1949 (due to a number of causes), net profit ratios to sales have held very stable. Net profit ratios to sales in grocery retailing are so nominal as to have no significant influence upon either the general level of retail or farm food prices, or upon over-all farm-to-retail marketing "spreads."

These points are treated at greater length in the accompanying statement, to serve as a basis for discussion during my appearance at your November 13

hearings in Ottawa. We hope that the material in this statement, plus that separately filed in response to your questionnaire, will assist the Commission in its present inquiry. We are pleased to co-operate in view of the vital importance of all segments of the food industry to the entire economy of Canada.

Description of Canada Safeway Limited: Canada Safeway Limited was originally incorporated in 1929. In October of 1958 the Company operated 177 stores in five Western provinces, for the purpose of cash-and-carry retail sales to ultimate consumers of food and certain non-food products. Retail operations are conducted under decentralized management in six regional retail zones, geographically extending from Port Arthur, Ontario, westward.

Canada Safeway Limited has two subsidiaries:

(1) Macdonalds Consolidated Limited engages in wholesaling and certain food-processing activites, and also acts as warehousing and procurement agent for Safeway for certain commodities in some areas;

(2) Wingate Equipment Lessors Limited is a non-operating subsidiary organized to finance the purchase of equipment.

Although a subsidiary of Safeway Stores, Incorporated, a Maryland corporation, Canada Safeway employs and is managed by Canadian people. Canada Safeway's policy is to maximize purchases of Canadian products and imports from the Commonwealth, and to follow a programme of re-investing earnings in Canadian operations.

In 1957, consolidated sales of Canada Safeway Limited amounted to $215,000,000. Employees at the end of the year numbered 5,241. Over the past decade, Canada Safeway sales have more than doubled. So have purchases from farmers and other suppliers. In that time, the number of employees has doubled, their wages and salaries have nearly tripled, and total taxes paid to Dominion, Provincial, and local governments have nearly quintupled.

Nature of Commission Inquiries: This Commission was appointed (a) to inquire into "the extent and the causes" of the "spread" between retail and producer prices for foods: (b) to determine whether such "price spreads" are "fair and reasonable"; (c) to make recommendations regarding any "price spreads" found to be "excessive"; and (d) to "examine the adequacy of price information currently available."

The Commission's questionnaire, its request for this brief, and press reports of hearings to date, all would indicate:

First, that the time period to which primary attention is being given is the period since 1949 (which was the year of the report of the Royal Commission on Prices, C.A. Curtis, chairman); and

Second, that some of the major areas of interest to the Commission would include the following:

(a) Statistical measurements of "spreads" -- and their changes since certain reference periods in the past.

(b) Functions and services that go to make up

"spreads" -- and their changes through time.

(c) Changing structure and organization of the food distribution industry.

(d) Price determination -- who sets food prices, and how.

(e) Mark-ups in food retailing -- variations and causes.

(f) Modern merchandising methods -- facilities, products, and promotion.

(g) Operating costs in food retailing -- components and trends.

(h) Profits.

We recognize that the Commission, as stated on page 2 of its questionnaire, is "particularly concerned with the period from 1949 to the present." However, we feel it is very important for a complete evaluation of "spreads" to adopt the further suggestion of the Commission, namely to "refer to other periods to place the data in perspective." A long-term perspective should be carefully maintained, when analyzing such a dynamic field as that of food production, processing, and distribution.

Changing Structure of Canadian Food Distribution: Changes in the basic structure and organization of the food distribution industry certainly have important effects upon marketing margins and costs, and hence upon farm-to-retail price "spreads." Over-all efficiency of food distribution depends upon selection of the most productive marketing "institutions" -- firms, agencies, types of organization -- and the manner

in which they perform their functions.

Our underlying points of view regarding the changes of the past decade in the structure and organization of Canadian food distribution may be summarized as follows:

(1) Changes of the past decade -- and further changes that will occur in the next decade -- are but part of a long-term evolution in the marketing of foods.

So-called "new" features of present day marketing and merchandising are often attributed to "radical" or "violent" changes of the last very few years. A better perspective may be gained, and hence a better evaluation made of present-day practices, if it is recognized that these features of today have resulted from forces that have been under way for many years.

(2) Changes in food retailing facilities and organization are competitive responses to technological and other developments in agricultural production, and to other prior stages of marketing, as well as to changes in the consumer market.

More and more it becomes essential, when studying the agricultural economy, to view the entire cycle of production, distribution, and consumption of foods as a single inter-related process. Confusion is likely to result if one tries to separate too neatly each stage of the cycle from the others.

Much attention is given to adaptations of retailers to "new" characteristics of the consumer

market -- suburbia, autos, shopping centres, higher incomes, etcetera. It should not be overlooked that many of the changes in food retailing are traceable to preceding advances in agricultural technology, specialization, and large-scale operations. Such changes have often necessitated as well as made possible consequent adaptations in food processing and distribution.

(3) The course of evolution in the food industry, as elsewhere, will always be irregular.

As in Nature, progress in food production and distribution is uneven. First one segment of the food economy, and then another, will lead. Through competitive trial and error, new, more efficient methods will be developed at one point, will be proven successful, and thus lead to adaptations by other segments. Examples may be found in such non-simultaneous developments as farm mechanization, irrigation, improved fertilizers, and other yield-raising technological advances in agriculture; refrigeration, dehydration, and mass-production techniques in food processing; truck transportation, materials-handling devices, and the trend toward automation of warehousing and inventory control in intermediate distribution; self-service, cash-and-carry, and other advances in food retailing.

(4) That progress most beneficial to consumers, to producers, and to the entire food industry, has evolved and will continue to evolve out of a freely-competitive profit-and-loss system of food distribution.

A freely-competitive, profit-and-loss system

of food distribution has been and always will be the most akin to "natural selection" of the most efficient methods, techniques, and marketing agencies.

Legislative or regulatory attempts to protect or improve the system, or its particular segments, no matter how well intentioned, may endanger and restrict that very progress and public well-being which they seek to achieve.

For a further discussion of these evolutionary aspects of changes in food marketing, we would refer the Commission to a recent paper entitled "Adapting Market Organization to Changing Requirements," delivered by D.B. DeLoach, Professor of Agricultural Economics from the University of California (at Los Angeles). The paper was read at a meeting in August of this year in Winnipeg of the American Farm Economic Association. (Copies will be provided upon request.) We also invite the Committee's attention to Appendix A, which contains excerpts from the Restrictive Trade Commission's 1955 report.

To restate our position on this topic, we view the present structure and organization of food production, processing, and distribution in Canada as merely the present stage of a long-term, progressive evolution of agricultural marketing. Current price relationships or "spreads" should be viewed in that perspective.

Meaning and Make-up of Farm-to-Retail Price "Spreads": In the marketing of foods, there are obviously a number of functions or services that must

be performed between the farm and the kitchen, in order to add to or transform the raw farm product into a product that has utility -- and therefore value -- to the consumer. Webster defines "utility" as the power to satisfy human wants. In the economic sense, the basic utilities (capabilities of satisfying human wants) relate to form, time, and place. Therefore, the minimum basic functions and services in food marketing include assembly, processing and packaging, storage, transportation, and distribution. These may be accomplished by various means, and by various agencies or institutions. But each must add to the utility of the product, and thus to its value to the ultimate consumer. Each addition of value necessarily involves the incurring of costs, which must be recovered if performance of that operation is to be continued.

Thus, the difference between the final value (or retail price) and the original value (or farm price) represents the sum of progressive additions to the utilities (or want-satisfying powers) of the product. "Spread," then, is the market valuation of the added utilities. It is a measurement of values added by the marketing system.

Our point here is, first, that "spread" may -- and should -- be viewed positively as an index of creative contributions to the satisfaction of human wants, rather than negatively as an "assessment" taken out of consumer expenditures or producer returns or both. And second, we know of no better mechanism than free, competitive market prices, for human wants

to be accurately and selectively expressed, and ultimately satisfied.

Statistical measurements of Farm-to-Retail Price "Spreads": Measurement of the extent and trends of farm-to-retail price spreads", for individual foods or for broad groups or all foods, requires careful analysis as well as extensive data.

The problem goes beyond simple comparisons of differentials between the unit price of the final retail product and the unit price of the original farm product. Products at farm and at retail are in fact quite different commodities. Some products, such as eggs, may appear to have the same basic form and shape at both places, but at the farm they do not possess the grade selection and the protective packaging which are included in the sale at the retail store. Other farm products, such as wheat, are but ingredients of the finished product, such as bread. And still other farm products, such as beef steers, represent the common source of numerous, widely-varying consumer cuts of beef, as well as waste and by-products, such as hides and tallow.

Nor is the problem of measurement solved by comparing trends of over-all composite indexes of retail food prices with trends of aggregate indexes of farm prices of all agricultural products. Item components of such indexes, and their weightings, often are not sufficiently comparable to permit a proper evaluation of the trend of the intervening farm-to-retail price "spreads." Moreover, any comparison

of index trends requires a reference point of departure, or base. It is most difficult, if at all possible, to select a base that truly represents a "normal" or "balanced" relationship of farm prices, retail prices, and marketing "spreads."

For the Commission's consideration, we have gathered together in Appendix B some statistical evidence from readily available sources relating to the extent and trends of farm-to-retail price "spreads."

Chart 1 shows a comparison of trends in regularly published Dominion Bureau of Statistics composite indexes of consumer prices for foods (1949 base = 100, as published) and aggregate indexes of farm prices of agricultural products (base converted to 1949, for better comparison). The box enclosed by broken lines shows the 1949-57 period to which primary attention is being given by this Commission. For a broader perspective, the full chart encompasses the period since 1935. A plotting for mid-1958 is added which indicates, incidentally, an upturn in agricultural prices from the downtrend of 1951-57.

Chart 2 shows these very smae indexes, only this time both are shown on the 1935-39 base = 100 used by Dominion Bureau of Statistics for its agricultural price index. This alternative base or point of departure might help give a broader perspective, and thus a more complete evaluation of trends in the period since 1949. It shows, for example, that advances in agricultural prices exceeded the rise in retail food prices during World War II and most of the post-war

readjustment period. But for the total period 1935-39 to 1957-58, advances in agricultural and retail food price indexes have been virtually the same (both now stand at about 2-1/2 times their pre-war averages).

In Chart 3, we submit a comparison over the period of 1949-57, only, using 1949 as a point of departure (base = 100). Comparative trends are shown (a) for the foregoing composite indexes of retail food and agricultural prices, and (b) for indexes of retail prices and equivalent farm values of 14 matched foods. These latter indexes were recently made available in a special Canadian Department of Agriculture analysis of "Price Spreads and Farmer's Share of the Consumer's Retail Food Dollar" published in the August 1958 Economic Annalist. Such derivations of farm-to-retail price "spreads," based on specific, matched foods, have the advantage of utilizing farm quantity equivalents of the retail food products, with comparable weightings, and with allowances for by-product values. Trends in this analysis of 14 matched food products would indicate a broadening in farm-to-retail price "spreads" from 1949 to 1957 of a considerably lesser degree than was indicated by the trends of the gross indexes of composite consumer food prices (for non-farm as well as farm foods) and aggregate agricultural prices (including non-foods as well as foods). Unfortunately, price "spread" data on these 14 matched foods are not yet available for 1958. When they become available, we expect they will show some narrowing of "spreads" with the upturn of farm prices.

In Chart 4, again for a broader perspective, we have extended this comparison for 14 matched foods back to 1935, based on prior Department of Agriculture data for 9 matched foods. We have also adjusted the relative levels of farm and retail prices to conform with the farm share (52 per cent) and marketing "spread" share (48 per cent) of the consumer food dollar in 1949.

Chart 5 is based on the same figures for Canada as Chart 4, but shows the farm-to-retail price "spreads" throughout as percentages of the consumer food dollar. This is to adjust for the basic advance over the years in general levels of prices and costs throughout the economy. We believe the Commission will be interested to note two major indications of this chart:

(a) Although having broadened since 1949-51, the proportion of the Canadian consumer's food dollar devoted to the marketing "spread" (around 55 per cent) in recent years has remained less than the "spread" proportions (around 60 per cent) prior to World War II advances in the general price level. This has been accomplished despite the fact that many improved services and conveniences have been added to the marketing of foods.

(b) The marketing "spread" proportion of the Canadian consumer's food dollar has followed trends similar to those in the United States, but with slightly lesser proportions devoted to "spreads" in Canada over the past several years.

Price Determination in Food Marketing: Who "Makes the Market" -- "Sets" Food Prices? To dominate or even to influence prices significantly would require a degree of control over supply and demand that simply does not exist in any private segment of Canadian food production, processing, or distribution. On the contrary, we are convinced from experience that food marketing in general -- and food retailing in particular -- is characterized by intense and dynamic competition.

(Appendix C contains excerpts from a searching analysis by an American economist of how market prices are made. Although the analysis is primarily concerned with United States markets, we believe the same basic conditions exist in Canadian marketing and pricing of foods.)

Direction of Price-Making Forces: This Commission has asked our opinion as to whether, in the price-making process for foods, on the one hand, agricultural prices are in effect residuals after total marketing costs and profits are deducted from retail prices which are established more or less independently; or whether on the other hand, consumer prices represent a pyramided sum of marketing costs and profits added to pre-established basic agricultural prices.

Our answer is that neither concept, alone, is correct. We are reminded of the analysis by that great English economist, Alfred Marshall, where he likened essentially that same question to asking which blade of the scissors cuts the paper. (The pertinent excerpt from Marshall's "Principles of Economics" is

given in Appendix D.) Our view is that today, just as in Marshall's time, both the supply and the demand "blades" of the economic scissors are equally and simultaneously at work in the competitive price-making process for foods.

Retail Pricing and Mark-ups for Foods: Competitive selling prices are essential to success in food retailing. But there are no simple or magic formulas to lessen the retailer's pricing problems. Retail price changes usually follow closely any significant changes in merchandise costs. But retail pricing is not a matter of simply applying pre-determined, rigid mark-ups to costs.

Each item must be priced with recognition of its original cost, and the expenses of handling it, but with attention always given to prices of substitute items and competitors' prices. Regardless of "differentiation" of his store and his services through promotional and other activities, the food retailer's selling prices must be competitive if he is to continue to attract customers to retain or expand his volume.

As a result, selling prices of different food retailers in a market area will appear somewhat similar on the vast majority of items at any given time. Yet within such competitive similarities of local retail food prices, there remains a considerable range of variation in retail mark-ups over costs. Mark-ups vary by commodity groups, by items within such groups, by locality, by season of the year, and from time to time.

In general, there tend to be certain broad "patterns" in mark-ups, which for the most part reflect differences in costs:

(1) The more perishable items typically carry wider than average mark-ups. Most fresh fruits and vegetables, for example, must be trimmed, and the display repeatedly re-worked to keep it salable and attractive. This care involves higher handling costs, greater spoilage losses, more price markdowns, more risks to be covered by the mark-up.

(2) Slow turnover items typically carry broader mark-ups than fast-movers. Per unit sold, slow-movers require greater investment in inventory and in retail shelf-space. Such costs must be recovered in the retail mark-up.

(3) Despite numerous exceptions, smaller package sizes generally carry mark-ups which are wider, per ounce or as percentage of selling price, than do the larger sizes. Many of the retailer's costs are more closely proportional to numbers of units handled than to their weight or value.

B
JC:iz
11/13

(4) Special varieties or luxury items frequently carry broader markups than do standard staples. This may often be correlated (inversely) with turnover, but is also often related to additional promotion or special display equipment required to handle the "new" or "unusual" items. Narrower markups usually follow growth of consumer acceptance and increased movement.

(5) Markups also tend to be broader in stores more distant from sources of supply, where additional transportation or storage is required; in stores where telephone and delivery services are offered; and in stores which are operated only in certain seasons.

In addition to such cost-related variations in retail grocery store markups, there are differences which can be explained only by "tradition." An example is the historical markup differential for non-foods (such as housewares and health and beauty aids) over most foods. Markups also tend to vary as competitive pressures become greater or lesser in various marketing areas.

In our opinion, this characteristic of markup variability in retail food pricing is further evidence of the dynamic competitive nature of food retailing. Each grocery retailer continually adjusts his prices and his markups -- within the limits of "minimum loss" and "loss leader" laws of the various provinces -- in striving to attain that combination which will attract

the consumer sales volume to cover his over-all operating costs and return a reasonable profit. (See Appendix E for views expressed by the Royal Commission on Prices in 1949.) Because consumers exercise free choice among food retailers, the over-all average of retail food markups is among the lowest of any type of retailing.

Modern Methods of Grocery Merchandising: Questions have been raised by and before this Commission regarding the expansion and modernization of retailing facilities, the proliferation of items, and the various promotional activities in present-day merchandising of foods. It has been asked whether such developments do not in fact add to the costs of food distribution, increasing the "spread" between farm and retail food prices.

These are good questions. But they are not amenable to categorical answers. Within our company, and undoubtedly within others, questions of this type are raised almost daily as part of our regular business operations and planning, and are subjected to continuing, intensive investigation and scrutiny. Each suggestion, each proposal, each product-offer or promotion plan must be evaluated on its merits. Every decision within the firm or the industry is then subjected to a most critical and effective court of review -- the collective consumer.

In our competitive system, it is inevitably the consumer who is the ultimate judge of whether merchandising methods do or do not satisfy human needs,

wants, and the desire for better living. The test, then, of whether these more modern methods are "necessary" or "worth their costs" lies in whether they continue to be demanded and paid for by consumers exercising their prerogative of free choice.

Facilities: Food retailers can attest from experience that the vast majority of customers will patronize those stores which offer the greatest variety, quality, convenience, and comfort -- prices considered.

The result has been larger stores, with greater shelf space to hold more varieties and permit one-stop shopping . . . adequate parking space for the growing auto trade . . . improved fixtures to refrigerate or otherwise protect and to display more attractively those newer products of growing consumer acceptance. In addition, more comfort and pleasure have been added to food shopping, through the provision of air-conditioning, improved lighting, and more attractive colour and other decorations of the store.

These characteristics of modern retailing facilities indeed cost money -- sizeable sums in total. But they also provide the means for the retailer to attract that total customer volume which enables him to reduce or limit the advance in his unit costs of retailing.

The modern consumer's food-shopping wants and desires have expanded along with his income and general standards of living. The vast majority of consumers prove by their patronage that their food-purchasing demands include convenience, comfort, and services. The food

4

retailer who resists this general broadening of demands will find that he can successfully serve only limited, isolated segments of the consumer market.

Products: Over the past several years, there has indeed arisen what is often referred to as a "proliferation of products" in the modern grocery store. Many products on the shelves today were unknown just a few years ago, and many new ones are being offered to retailers each week.

This of course compounds the retailer's problems and the total costs of providing space and attractively organizing displays. But the retailer must offer those expanding assortments which prove by sales volume to conform best to the expanding demands of the vast majority of consumers.

It has been asked whether this growing number of products, varieties, colours, sizes, and shapes does not in fact merely confuse the customer. Our experience would indicate that for each customer possibly confused by the numbers of items on our shelves, there are many others who not only are not confused, but who will shop elsewhere if they cannot find on our shelves the specific item desired.

Thus, in general, we regard the modern multiplicity of items much as we view the modernization of facilities. They are primarily responses and adaptations of the food marketing system to changes in consumer demands in a dynamically expanding economy.

Promotion: Promotional activities in food as well as in other merchandising cover a range about

as wide as the collective imagination of those involved in food marketing.

A good deal of retail food promotion is designed primarily for the necessary identification of the store and its products. Store signs, shelf markers, and most labels would fall in this category. Other "in-store" promotion, and much newspaper advertising, is designed to convey price information, news, and educational material by which consumers may learn about new products, different uses, time-saving ideas, and less expensive ways to prepare foods. Consumers look to these sources to learn what it is, what it will do, where it is available, how much it costs. These are certainly essential "services" of food retailing, costs of which must be recovered in prices paid by the consumer.

Special sales, price markdowns, introductory offers and the like, are appeals of the retailer or manufacturer based primarily on price. They benefit purchasers of the product directly. They help maintain or increase the seller's volume and hence lower his unit costs. To the extent that they increase consumption, they broaden the market for original producers. Thus, these too are obviously beneficial adjuncts to and part of the competitive marketing of foods.

Promotional activities which are sometimes questioned are those where there is a less direct connection with the bare essentials of food marketing, or a less apparent "service" performed for the

satisfaction of consumer demand. On these also we do not feel that categorical answers can or should be given.

For example, consider most "give-away" plans, premiums, and the like. In general, our Company feels that such "gimmicks" probably do not expand over-all food consumption. Moreover, a good many of the "gimmicks" do not immediately lower consumer prices for foods. But to the extent that they help maintain or expand the sales volume of the store, they again serve to reduce unit costs of the retailer.

Consider also the intensive promotion by retailers and others when an agricultural surplus of a certain commodity threatens a collapse in producer prices. Such cooperative farmer-retailer campaigns are generally regarded as commendable. Some consumers conceivably might argue that these campaigns held prices of these surplus foods above the distress levels which might otherwise have prevailed. Our company, a pioneer in such campaigns, has viewed them as beneficial to all. They benefit producers immediately and obviously. They most often benefit consumers through lower than normal prices on the featured items. And in the long run, they also prevent waste and help maintain a healthier economy for suppliers of food products.

On the whole, we believe that most modern

developments in food merchandising are indicative of progress. Selection of those most conducive to improvement of food marketing will best be accomplished by continuation of freely competitive merchandising. In our opinion, it would be most difficult, and could very likely be unduly restrictive, to label ertain merchandising activities as "proper" and others as "excessive." Some activities may appear to add to "spread" today, but actually may prove in the future to decrease food marketing costs and "spreads." Or, certain services will be added to the make-up of "spreads" which better satisfy consumer wants, and thus ultimately work to the benefit of producers.

Labour Costs and Productivity in Food Retailing:

Costs of labour are the major costs of retailing foods. They account for over half of the total expenses of operating the retail store, after the merchandise has been purchased.

To remain competitive in his costs as well as in his prices, the retailer must make every effort to increase the efficiency and productivity of his employees. The chain food retailer does this through selection and training of employees; through improvements in design of stores and equipment; through better organization; and where possible, through mechanization of retail operations and by performance of certain "retail" functions at "pre-retailing" levels where greater labour efficiency is more readily attainable.

We believe that progress has been made in improving labour efficiency in retail food stores.

However, it is difficult to demonstrate these improvements clearly with figures. Precise data on labour "output" and "input" are not readily available from usually maintained accounting records. And it is questionable whether usual measurements of physical "productivity" of labour are appropriate when applied to food retailing.

Dollar sales per man-hour comparisons over a ten-year period, for example, are subject to such qualifications as price changes and changes in the bill of goods or "product mix."

Pounds per man-hour comparisons eliminate the factor of price changes. But accurate records on tonnage and man-hours are costly to keep. Moreover, the changing "product mix" means that the "pound" sold today is different from the "pound" of several years ago. Better-trimmed meats, package fruits and vegetables, and the more concentrated ready-to-eat or easy-to-prepare foods, for example, mean that today's "pound" contains more food value, and less bulk or waste. Also, there has been a shift toward more non-foods in grocery stores, and it takes more labour time to stock a fixture of low-weight-per-unit health and beauty aids, for example, than to stock a shelf of high-weight-per-unit sacks of sugar.

Estimates based on Canada Safeway records indicate that in our retail meat departments, pounds handled per man-hour increased moderately

9 through 1957. This increase may be attributed largely to the transition to self-service, packaged meats, where store volume has permitted, which has made possible the fuller, more productive use of skilled meat-cutting labour in combination with mechanical equipment and less-skilled packaging and stocking labour. In grocery and produce departments, on the other hand, estimates of pounds per man-hour have shown declines. But these declines may be attributed at least in part to the trends toward less wasteful, more highly processed products, and also to shifts of check-out functions from the meat to the grocery department. Store-wide, our estimates show that total pounds handled per man-hour were generally lower in 1957 than in 1949.

Over the past decade, such improvements as have been made in the efficiency of retail food store labour have only partially offset the rapid advance in wage rates and "fringe benefits."

Ratios of labour expenses to sales remain probably the most reliable measurement of the composite effects of changes in hourly wage rates and in physical labour productivity, relative to changes in prices, "product mix," and physical volume. Moreover, such expense ratios are the most indicative of changes in the retail labour component of the total marketing "spread" share of the consumer food dollar.

Canada Safeway operating expense records show that the ratio of employee costs to total sales increased by about 1½ percentage points

on sales from 1949 to 1957, with the increase somewhat less in our retail meat departments.

It should be recognized that even the larger-scale food retail store is not as amenable to assembly-line and other mass-production techniques as are most production processes and certain warehousing operations. Nor has food retailing had the benefit,as yet, of technological advances which would parallel, for example, the remarkable increases in yields per acre and per man-hour in agricultural production. Retailing remains primarily the application of man-hours with relatively limited mechanical devices. And we have yet to overcome the problem of peaks and valleys in consumer shopping habits, which make the scheduling of retail store labour very difficult.

Yet, food retailing must recruit and must reward its employees in competition with other fields where gains in labour productivity have been more pronounced. In food retailing as in other industries, hourly wage rates and "fringe benefits" advanced rapidly from 1949 to 1957, in some instances more than doubling. However, constant efforts to improve retail food store efficiency have limited the increases in unit labour costs, and thus have curbed the broadening of the retail labour component of farm-to-retail price "spreads."

Profits: Questions have been posed as to what levels of profit rates and of earnings retention are necessary to permit further, progressive and efficient development of food distribution in Canada.

We do not believe that any precise levels of "ideal" or "required" rates can or should be postulated, whether based on sales or on invested capital. Economic conditions change. Population grows and areas develop at varying rates. Technological advances and consequent requirements for capital investment in equipment occur unevenly. And different companies' policies vary regarding expansion, and ownership versus rental of facilities.

However, certain guiding principles may be stated:

(1) Profit rates should be adequate to permit a reasonable return to those who have invested private capital in food distribution.

(2) Profit rates in food retailing should be sufficient to attract new capital, as needed, in competition with other demands for funds.

(3) Sound and relatively secure earnings rates are essential whether expansion is to be financed from retained earnings, from equity issues, or from bonded debt.

(4) Flexibility of profit rates provides the incentives and the rewards for improvements in efficiency. Competition will prevent any inordinate expansion of food retailing profits. Together, they will eventually lead to a general lowering of food distribution costs.

The record of the food industry, retailing in particular, is unique among other Canadian

industries in its extremely nominal profit rates on sales. High turnover, low margin operations in food retailing result in a net profit ratio to sales which is so narrow that it could have no significant effect upon prices of individual items, upon the general level of retail food prices, or upon farm-to-retail price "spreads."

The chart and table presented in Appendix F, for example, show the following comparative changes from 1949 to 1957 in the total marketing "spread" share of the consumer food dollar, and in Canada Safeway expense and profit rates on sales:

(1) The share of the consumer food dollar devoted to the total farm-to-retail marketing "spread" broadened by some 8 percentage points from 1949 to 1957. Canada Safeway's gross profit rates on sales increased by about 4½ percentage points on sales, and the net profit ratio (after taxes) increased by only 1/3 of a percentage point on sales.

(2) Part of the 1949-57 increase in Canada Safeway's gross profit rate on sales (which measures the difference between final selling prices and costs of merchandise sold) was due to the handling of greater proportions of non-foods and other broader margined items. But most of the broadening of the gross profit ratio was absorbed by higher costs of doing business, as shown by the following:

Operating Expense and Profit Ratios	Difference between 1957 and 1949 Ratios to Sales
Higher operating expense ratio (Advances in wages and other costs, and also performance of more services)	plus 3.33% points on sales
Larger income tax ratio	plus 0.82% points on sales
Net profit (after taxes) ratio	plus 0.34% points on sales
Total broadening of gross profit ratio	plus 4.49% points on sales

(Page 3639 follows)

APPENDIX A

Excerpts relating to Evolutionary Aspects of Changes in Food Marketing Practices from 1955 Report of Restrictive Trade Practices Commission.

". . . It is of interest to compare the general tone of the submissions made in the present inquiry with that indicated a score of years earlier in the proceedings of the Special Committee on Price Spreads and Mass Buying. In the proceedings in 1934, there were representations on a wide scale on the part of organized retail merchants of the detrimental effects of alleged loss-leader and other practices of department and chain stores. One representative of a retail merchants' association expressed the opinion that "the dominating influence exercised by the department store and its subsidiaries as well as the chain store and its units is a social menace." Another representative stated: "The independent retail merchant today realizes that policies and forces are at work throughout Canada which, if allowed to continue, mean his ultimate elimination as a distributor of merchandise to the consumer." There is no question of the serious position in which independent retail merchants, along with other business men, found themselves during the decline in economic activity in the early nineteen thirties, and it is possible that their positions were aggravated by certain practices in retail trade which received greater emphasis in that period. The basic factors in the situation, however, were the general depressed conditions with consequent lack of consumer purchasing power, and the changing

system of merchandising in important fields with emphasis on self-service and rapid turnover. In the years which have intervened since the depression there have been further changes in merchandising, but the independent merchant has not been eliminated. In large measure he has adapted himself to the changed conditions and shown a degree of initiative and enterprise which bodes well that he will continue to play an essential role in the distribution of goods to the consumer."

(Page 189)

"4. Adjustment to Changed Conditions by Manufacturers and Merchants.

"Those factors which, in the Commission's opinion, are having the most significant effects on the distributive trades are inherent in the competitive system, and cannot be interfered with without injury to the effective working of the competitive process. These competitive factors are relied upon to secure the introduction and adoption of methods which will lead to greater efficiency and permit the greater satisfaction of consumer wants. Develoments in this direction are of general benefit to industry and trade. They make possible the more effective use of resources, and by widening the market they also make possible production in larger volume and distribution on a greater scale. By so doing they satisfy more wants of consumers at lower cost."

(Pages 251-52)

"12. Conclusions as to the Need of Remedial Measures:

"It must be remembered that in our free economy competition is the great regulating force that operates in the public interest, compelling producers, manufacturers and merchants to seek constantly to improve their methods of production and distribution, so that the prices of their goods as well as their quality will appeal to the buying public. Any legislative interference with freedom of competition, therefore, requires for its justification substantial proof of the serious character of the evil it is designed to correct."

(Page 265)

(Restrictive Trade Practices Commission, report on an Inquiry into Loss Leader Selling, Department of Justice, Ottawa,1955)

(APPENDIX B, Charts 1 to 5 inclusive
Tables 1, 2 and 3, see
original Brief)

APPENDIX B (Continued)

Methods of Deriving Price Spread and Share Data for Tables 3 and Charts 4 and 5:

Canadian data for 1949-1957 on Table 3 were derived from index numbers (1949 = 100) of retail prices, farm prices and farm share for 14 matched foods, given on page 94 of the August 1958 issue of "The Economic Annalist." The 1957 "farmers' share" of 44 per cent of retail price, reported on page 93, was taken as the "benchmark" from which a 1949 "share" of 51.7 per cent was calculated by applying the "Indexes of farm share." Then, with 1949 Retail Price of the 14-foods composite set equal to 100, the comparable level of "Farm Value" in 1949 is represented by 51.7. Retail and Farm price series were then calculated for each year, 1950-1957, by applying the respective 14-foods indexes to the 1949 bases.

For 1935-48 data on Table 3, we used individual product data on retail prices and equivalent farm values for each of 9 matched food products which were reported in "Marketing Margins for Selected Canadian Agricultural Products, 1935-49" (Canada Department of Agriculture, 1950). These series were combined into "9-foods composite" series by applying consumption weights which reflect consumption of closely related items, in addition to each specific item included in the "9 foods." Those consumption weights were derived from average weekly expenditures per person reported in the 1955 Canadian survey, DBS, "Urban Family Food Expenditure, 1955" (published 1957), and from retail prices. Trends in the Retail and Farm Value

composites of the 9-foods, 1935-1949, were adjusted and adjoined to the 1949-58 series for 14-foods described above.

The "Spread" column was then calculated by subtracting Farm Value indexes from Retail Price indexes, all now relative to Retail Prices in 1949 = 100. Expressing this spread index (1949 Retail Price = 100) as a percentage of Retail Prices (again 1949 = 100) gives the "Spread Share of Retail Price."

The United States "Spread Share" was derived by subtracting published figures on the U. S. "Farmer's Share" from 100.

\- - - - - -

The Canada Department of Agriculture's series on retail prices and equivalent farm values, first for 9 matched food products and later for 14 matched foods, represent what we believe are the most appropriate and sound statistical bases available for measuring farm-to-retail price"spreads."

1. A representative group of retail farm food products is selected for which retail prices are available.
2. For each such item, there is determined the "farm product equivalent" quantity of the comparable farm product which is sold by farmers, on the average, to supply one retail unit to consumers. This equivalent should include allowances for weight loss and shrinkage in processing conversion, for marketing waste and spoilage, etc.
3. Then the "Farm Value" is computed by applying unit prices received by farmers to the farm

product equivalent" quantity, and eliminating imputed values of processing by-products.

4. The comparable Farm Value is subtracted from the Retail Price to show the "Farm-to-Retail Price Spread" per retail unit. Division of the Price Spread by the Retail Price shows the "Spread Share" of the consumer dollar spent for the product.

5. Finally, both retail prices and farm values of individual products are combined by quantity weights reflecting relative importance of each food -- using the same weights for both series. This gives comparable matched-product value aggregates and indexes for the group of farm food products combined.

APPENDIX C

Excerpts relating to the Making of Market Prices from "How is the Market Made in Integrated Industries?" by George L. Mehren, Director of Giannini Foundation of Agricultural Economics at the University of California. Opening paragraphs (pages 1, 2): "The meaning of Making a Market".

"Dimensions of the Market. To ask how any market is made in any industry is really to ask several other questions. The making of a market involves -- among other things -- controlling the characteristics of products produced, the volume of output, the cost structure, the price level, and the allocation of returns. Theoretically, and practically as well, to determine how a price is made provides the basis also to determine how other major attributes of the market are made. For measurement purposes, a market is best defined as a fabric of economic relationships of a specified degree of closeness. These relationships involve all of the factors affecting production, procurement, and merchandising. The dimensions of a market thus depend upon the range of space, time, product, and productive factors relationships close enough that a change in any one of them results in a fairly substantial change in one or more of the others. This is important in considering who or what makes the price or other elements of a coordinated market. Institutionally, a market can be defined in terms of the economic interrelationships among enterprises, markets, market channels, and constraints imposed by law. As an

alternative, a product can be defined as items with close competitive or complementary relations. An industry can be defined as a group of firms making the same product. Thus, the space, time, or other dimensions of the market are determined by the extent of the interrelationships of the firms in the industry. In any of these senses, the market for every major food and agricultural product in the nation is national in scope. Thus, to make a market or to control a price in any important segment of the food and agricultural industries would require control by individuals or groups over the major determinants of one or more major market relationships for the entire country.

"Possible Means of Making a Market. Under the simplest conditions, a market might be made for an already-produced supply of a commodity if the individual or group could control (1) the wants or preferences of users, (2) the prices of related products, (3) the level and distribution of buying power, or (4) a very substantial part of the market supply of the commodity or products over which control was sought. Markets for some major foods are affected by a few other factors, clearly outside the control of individuals. Differential advantage in scale or method of procurement or production could contribute to making a market by increasing the relative size of the enterprise in the total market. In general, and quite legitimately, virtually every company seeking profit in the competitive system of the food industries does attempt to manipulate one or more of these determinants.

Thus, for example, the fundamental purpose of advertising, or other forms of promotion, is so to alter the preferences of users as to lift the level of demand facing the advertiser."

"Short-Run Power to Make a Market. It is generally impossible for any firm or group, government excepted, substantially to affect the supply of related goods, the prices thereof, or -- in all likelihood -- even the basic long-run preference system of consumers with respect to related goods. Certainly there is no major segment of the food and agricultural industries which, acting alone, can substantially affect the purchasing power of people or the distribution of such buying power. Thus, the only major vehicle through which a market could be conceivably made in the short run would be control over the supply of a product. . ."

"Long-Run Power to Make a Market. More important, if an effort were made to make a market over a period of time long enough for production of the controlled product or its substitutes to be varied, the enterprises attempting to make the market would necessarily have to control entry into the production of the controlled product and its substitutes as well . . ."

"The Facts of Making the Market. In short, there is no evidence that any group or any individual firms -- again excepting government -- is able to make any market for any major product in the food and agricultural industries of this nation . . ."

"What Does Make the Market. If it be true

that no individual or group can effectively make a market, then the question rises as to who or what does in fact make the market. It seems to me the answer to this basic question is no different from what it has always been, despite the drastic institutional changes in market structure and market methods which have recently occurred. I do not believe that anybody or any group can or does make the market for any major food. I believe that the process of competition among consumers, among all sorts of food processors and distributors, among all kinds of food producers, among many different types of enterprises supplying raw materials to the food industries, among all types of industries using the same inputs as any part of the food industry, and among all people seeking areas for the investment of capital -- taken together -- make the market."

\- - - - - -

Concluding paragraphs (page 15):

"While nearly all the attributes of markets have changed, the apparent increase in relative size of enterprises at all levels of the food system may lead to the belief that individual enterprises or groups can make a market. It is true that the number of processors in some food lines -- not livestock and meat products -- have grown smaller and the enterprises have grown larger. In general, the same development has appeared at all functional levels from the producer clear through to the retailer. It is also true that product characteristics and sometimes even volume of product are determined by methods other than open-

price bidding.

"However, there appears to be no fundamental change in the making of a market or the making of a price which reflects the making of the market. It is very doubtful that any group -- retailer, wholesaler, processor, or other -- has sufficient control over the preferences of people effectively to affect the market. There is no evidence of such position among firms in any level of the industry. More and more, the various food lines -- meat and meat products, dairy products, delicatessen, grocery, bakery, and others -- are being handled separately by specialized agencies as the coordination of market segments continues. Thus, there appear to be no enterprise or groups of enterprises at any functional level which can effectively control volume or supplies of related products. Certainly, there appear to be no groups of firms able to control sufficient supply to affect the price of any major food item. No single firm or group of firms appears to have the product differentiated or promotional power required to do this. Finally, no enterprise can affect the purchasing power of the American consumer. Thus, there appears in fact to be no basis to consider that any type of enterprise is making the market even for an already produced supply.

"The single effective means to make a market is to control supply. No enterprise appears able to do this. Were any such enterprise able to reflect such control, it could maintain it only through limitation over new entry. There is no sign of

this power -- especially in the meat and livestock industries. The low margins and the high rate of new entry in these industries both attest to this conclusion. In short, it appears to me that the same major factors are involved in the making of a market as always before. It appears to me that no enterprise or group acting alone substantially affects the making of any of the food markets. It seems to me that the channels through which the determinants of markets express themselves have changed. But nobody controls these channels. Acting competitively, millions of consumers, producers, processors, and distributors -- each seeking his own separate objectives -- make the market for foods."

(From "How Is the Market Made in Integrated Industries?", an unpublished paper delivered at the National Institute of Animal Agriculture, Purdue University, April 21, 1958, by George L. Mehren)

APPENDIX D

Excerpts on the Price-Making Process From Principles of Economics by Alfred Marshall.

"Equilibrium of Normal Demand and Supply (Book V, Chapter III):

"The remainder of the present volume will be chiefly occupied with interpreting and limiting this doctrine that the value of a thing tends in the long run to correspond to its cost of production. In particular the notion of equilibrium, which has been treated rather slightly in this chapter, will be studied more carefully in Chapters V and XII of this book: and some account of the controversy whether 'cost of production' or 'utility' governs value will be given in Appendix I. But it may be well to say a word or two here on this last point.

"We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production. It is true that when one blade is held still, and the cutting is effected by moving the other, we may say with careless brevity that the cutting is done by the second; but the statement is not strictly accurate, and is to be excused only so long as it claims to be merely a popular and not a strictly scientific account of what happens.

"In the same way, when a thing already made has to be sold, the price which people will be willing

to pay for it will be governed by their desire to have it, together with the amount they can afford to spend on it. Their desire to have it depends partly on the chance that, if they do not buy it, they will be able to get another thing like it at as low a price: this depends on the causes that govern the supply of it, and this again upon cost of production. But it may so happen that the stock to be sold is practically fixed. This, for instance, is the case with a fish market, in which the value of fish for the day is governed almost exclusively by the stock on the slabs in relation to the demand: and if a person chooses to take the stock for granted, and say that the price is governed by demand, his brevity may perhaps be excused so long as he does not claim strict accuracy. So again it may be pardonable, but it is not strictly accurate to say that the varying prices which the same rare book fetches, when sold and resold at Christie's auction room, are governed exclusively by demand.

"Taking a case at the opposite extreme, we find some commodities which conform pretty closely to the law of constant return; that is to say, their average cost of production will be very nearly the same whether they are produced in small quantities or in large. In such a case the normal level about which the market price fluctuates will be this definite and fixed (money) cost of production. If the demand happens to be great, the market price will rise for a time above the level; but as a result

production will increase and the market price will fall: and conversely, if the demand falls for a time below its ordinary level.

"In such a case, if a person chooses to neglect market fluctuations, and to take it for granted that there will anyhow be enough demand for the commodity to ensure that some of it, more or less, will find purchasers at a price equal to this cost of production, then he may be excused for ignoring the influence of demand, and speaking of (normal) price as governed by cost of production -- provided only he does not claim scientific accuracy for the wording of his doctrine, and explains the influence of demand in its right place.

"Thus we may conclude that, as a general rule, the shorter the period which we are considering, the greater must be the share of our attention which is given to the influence of demand on value; and the longer the period, the more important will be the influence of cost of production on value. For the influence of changes in cost of production takes as a rule a longer time to work itself out than does the influence of changes in demand. The actual value at any time, the market value as it is often called, is often more influenced by passing events and by causes whose action is fitful and short lived, than by those which work persistently. But in long periods these fitful and irregular causes in large measure efface one another's influence; so that in the long run persistent causes dominate value completely. Even the most persistent causes are however liable to

change. For the whole structure of production is modified, and the relative costs of production of different things are permanently altered, from one generation to another."

(Alfred Marshall, Principles of Economics, eighth edition; London, 1936, pages 348-50.)

APPENDIX E

Excerpt on Mark-up Variability from 1949 Report of the Royal Commission on Prices.

"Some Considerations on Mark-ups.

"In actual practice, the retailer or wholesaler does not add the same mark-up to all his goods. There are several reasons why varying mark-ups are used. In the first place, the competition on some items may be too strong to allow the retailer to get his desired average mark-up. Again, some goods, such as style goods, are so subject to mark-downs that they are unprofitable unless the initial mark-up is very high. Moreover, it costs more to sell some goods than it does others; they may require more display, more of the sales person's time, and more advertising. A mark-up higher than the average is needed to offset this higher cost. Hence, the actual price established for any article of merchandise may vary considerably from that indicated by the application of an average mark-up percentage.

"The retailer, or wholesaler, endeavours to set up some average mark-up as the goal for his total operations but he tries to adjust his mark-ups on various items of merchandise so as to maximize his total net income. The result is that mark-ups on specific items may be in a process of constant adjustment in an effort to reach this goal.

"One of the most common fallacies connected with distribution is to compare the mark-ups, or margins, taken on different goods and to assume that

in those cases where the mark-up is relatively low the distribution is more efficient; or, to put the matter another way, to assume that in those cases where the mark-up is relatively high that it is "'too high.' For example, the margin on fresh fruits is considerably higher than the margin on sugar. However, the special circumstances attached to the distribution of fresh fruits, for example perishability, are absent in the case of sugar and necessitate the taking of a higher margin on fruits."

(Report of the Royal Commission on Prices, Ottawa 1949, Volume II, page 230.)

(Appendix F (Chart and Table) see original brief.)

THE CHAIRMAN: Thank you, Mr. McCann. We appreciate very much your firm returning the questionnaire which we have not had a chance yet to see actually, but we appreciate that and also this very fine well-organized brief.

We normally run from about ten a.m. to 12.30 in the morning and we usually like to take a break somewhere along the way. I think perhaps the best thing to do would be for us to take it now and then perhaps we will have some questions afterwards.

We will adjourn for ten minutes.

MR. McCANN: Thank you, doctor.

---Short recess.

THE CHAIRMAN: Mr. McCann, my colleagues have a few questions they would like to ask you and I think we will start with Mr. MacKichan.

COMMISSIONER MacKICHAN: Mr. McCann, on page 6 under the heading of price determination in food marketing I would fully agree with you it is somewhat difficult to dominate or influence prices too greatly, but would you agree in this period of the last five years that farmers have been at a bit of disadvantage in the surplus produce they have had in a great many cases, and would you also agree that a surplus will affect the market and a price almost out of all proportion to the volume of that service?

MR. McCANN: Yes, I would agree with you.

COMMISSIONER MacKICHAN: So the farmer situation can be worsened in that period just from that one point of view?

MR. McCANN: We are talking about agricultural produce?

COMMISSIONER MacKICHAN: Yes, which are after all our major food supplies.

MR. McCANN: That is right. We are concerned about that, and we are concerned to the point where we try to do something about it. With your permission I would like to quote a letter which I have received from the Gardeners Sales Limited, this is an amalgamation of two co-operatives who amalgamated in 1956. This is a letter from Mr. Daman who some of you know and he is the manager, and he has written to me and said:

"It seems to me that I am constantly in the position of having to thank you for supporting one crop or another in the local vegetable deal. I would feel most remiss in my duty if I did not thank you for the wonderful job Safeway has done this past week-end in merchandising Manitoba cauliflower. For your information the quantity involved was in the neighbourhood of 800 crates.

On behalf of the growers in our organization I would express sincere appreciation for helping to move a crop which had all the ear-marks of a surplus situation with attendant low returns.

I would take this opportunity of expressing my personal gratitude as well for once again helping us out of a difficult marketing problem. I would advise that the market has continued steady with returns to growers satisfactory, all in all a most worthwhile and commendable effort.

Our hope is that the deal was advantageous for your company giving a full measure of benefit for effort expended."

COMMISSIONER MacKICHAN: In a country with vast supplies and taking for granted that the Canadian stomach is pretty well looked after generally, I wonder what merchandise this would displace?

MR. McCANN: I do not know that it would displace anything, possibly a good portion of it would be used for pickels,pickled cauliflower is very nice, and I think some would be frozen. It might displace an import later on.

COMMISSIONER MacKICHAN: Spread it over a longer season?

MR. McCANN: That is right. I read that to point out that when something like this happens we try to do something about it.

COMMISSIONER MacKICHAN: On page 7 under retail pricing and mark-ups for food, I am sure the Commission does appreciate the page and a half you have given us on this matter of retailing pricing, but I wonder if you could suggest something simpler in that possibly one paragraph you would have said that mark-up would be the cost plus delivery, if such there be, and the pre-determined allowance for disabilities some products have such as spoilage and all the rest, and then with a mark-up for profit, for general over-all, and then with the final price mark-up tempered, let us say, a bit by the pressure of competition or just what the traffic would bear?

MR. McCANN: Is it by what the traffic will bear?

COMMISSIONER MacKICHAN: Yes.

MR. McCANN: No, we try to establish a fair, what we believe to be a fair price.

COMMISSIONER MacKICHAN: In the light of competition?

MR. McCANN: Yes, those competitive factors are always with us. We make what we believe to be a fair price on a product yet competition will force it down even to the point sometimes of selling below cost.

COMMISSIONER MacKICHAN: But the competition would have some bearing on what this traffic would bear?

MR. McCANN: Very much so.

COMMISSIONER MacKICHAN: Those are all the questions I have at the moment.

THE CHAIRMAN: Mr. Martin?

COMMISSIONER MARTIN: On page 5, referring to Chart 2 you say it shows, for instance, advances in agricultural prices during World War II, did you take into account that during that period some subsidies had been paid at the consumer level?

MR. McCANN: No, that was during the Wartime Prices controls, and I am afraid we did not.

COMMISSIONER MARTIN: Now, on page 11 you are speaking of tons per man hour -- and you mention that meats are now better trimmed than before. Do you have any idea of what this means in terms of food value,plus food value compared with 10 or 15 years ago? Do you have any idea of that?

MR. McCANN: We started on the campaign on meats just prior to World War II, about 19 years ago There would be considerable effect on food value when we consider the bone which was removed which was not edible. On the other hand, steaks, the meat is very, very good, the trim may not be as good as the meat itself, but I think the food value is probably higher than the steak.

COMMISSIONER MARTIN: It means that the added food value could have some reference to the

higher spread per pound or per unit?

MR. McCANN: Well undoubtedly, Mr. Martin, the cost of trimmed product must be high, at least we feel it must be higher than uncut. In some cases where the competition has forced it we have given customers a choice. We have placed, particularly on steak what we call the competitive trim which is no trim at all, and then if I may use the word Safeway trim, and it is surprising over the years. Of course we have been doing this now for 19 years, and we sell very, very few. In fact, our boys just do not like to do it, but we have this because obviously if we are going to sell the tail of the steak for stewing which is 49 cents, there must be some justification for the higher price on the trimmed product

THE CHAIRMAN: Could I pursue this point which we are very interested in? Would you have any records of the cut or proportion of carcasses for the past few years that might indicate a difference in the handling and proportions of the different cuts and the amount of waste? Has your company any such records?

MR. McCANN: Yes, would you like to have them?

THE CHAIRMAN: We would appreciate it very much if we possibly could get them.

MR. McCANN: I am sure they are available.

THE CHAIRMAN: It has been represented to us that there have been significant changes in the cut or proportions, we have very little evidence on this, and if you have anything we would appreciate it.

MR. McCANN: I will get those and send them

to you.

COMMISSIONER WALTON: Mr. McCann, there are just one or two things that I would like to ask you about. You have stressed the efficiency of retailing in your stores and the trend to the larger unit, and that it requires volume to offset these other costs of conveniences and parking lots and all the things that have gone into the modern super-market. I was just wondering, we have corporate chains who have the super-markets. Then in defence or in keeping up with these modern food retailers we have the voluntary chains, and everyone is striving for volume. I assume that buying in volume you buy better than just as an individual who have a very small volume. What do you foresee in the future, is there going to be any room for an little independent who is not in a voluntary chain. Are we going to wind up with the corporate and voluntary chains except perhaps for specialty stores for retail food, is that something you would foresee?

MR. McCANN: Well, I am sure there is always going to be room for the good independent. You mentioned the specialty stores, and I think that is right, but, for instance, there are a number of our managers and meat cutters in the last few years who have gone into business for themselves, some have and some have not associated themselves with independent chains, and are doing very, very well because they have that self interest. Of course, if we are going to have competition we would like it to be people that are trained and know all the facts. Now, I think for those

people there is going to be room and, of course, the voluntary chains are an important part now in merchandising both in the West and I believe in the East. They have all the advantages of independent ownership plus the advantage of collective buying, freezing and advertising.

COMMISSIONER WALTON: And you still think there is going to be room for some independents. What about isolated areas, there has not been a trend for any corporate change to go into anything.

MR. McCANN: That is right, with the possible exception of the Hudsons Bay Company, they have, as you know, numerous stores scattered throughout Northern Ontario. One good reason, I would say, is the difficulty in the time involved in supervising and maintaining contacts with central office.

COMMISSIONER WALTON: There was one other thing, and perhaps this would not be an unexpected question in view of some of the briefs we have had before; but, naturally, in any retail business, costs have to be recovered for fixed overhead and facilities offered and also the essential services, and on pages 8, 9 and 10 you cover these things, but on page 10, under "Promotional Services" you have listed some which are essential: In paragraph 4, the promotional activities have a less direct connection with essential services, and you have given us an example, "Give-away plans, premiums, and the like", and you say, "These gimmicks probably do not expand over all food consumption", and, "do not immediately lower consumer prices for foods. But to the extent that they help maintain or expand the sales volume of the store, they again serve to reduce unit costs of the retailer." If some of these give-away plans or gimmicks stimulate the buying of a product and the volume, then I assume you feel it justifies -- perhaps your particular store may have some give-away or some gimmick to stimulate volume, and then, presumably, you must be taking some volume away from somebody else, and then they dream up another one, and eventually everybody is in it, and the costs have to be recovered in the price. So, do you feel some of these promotional give-aways eventually, when everybody is in it, would not add to the cost without adding value?

MR. McCANN: Well, certainly they add to cost, but in those cases we cover it from some other part; actually, it is advertising, and we try to

recover from another portion of the advertising circles. I have some reservations about their value, but it seems to be the sort of thing that is being done and, to retain our position, we feel, rightly or wrongly, that we must go along with giving away expensive items.

COMMISSIONER WALTON: Well, I can see the initial value of the first one in the field with a product, whether it is a trading stamp or anything else, but I wondered, when everybody was in it, then the costs of these things -- there is nothing for free; we admit that.

MR. McCANN: Yes.

COMMISSIONER WALTON: They must be recovered some place, and eventually in the price. I was wondering if you had any observations on that?

MR. McCANN: Yes, we either take it from our advertising budget, from one side or the other, but, as you so aptly say, there is nothing for free, and unquestionably they do cost money. I don't know if I have answered your question.

I may enlarge on that: We have so much money set aside for advertising, and possibly you will have to cut down a little bit here and little bit there, but the end figure is pretty well within the scope of what we set aside, and we are not too unhappy about it.

COMMISSIONER WALTON: We have had some presentations that in regard to a particular food package the consumer has not any choice. In some cases she has. One will have a saucer or a cup --

we heard that in Winnipeg -- and they get all the china, and if they were able to have a choice they thought it was fair, but it was when there was some essential food had these doo-dads in and there wasn't any choice of getting it without.

MR. McCANN: I am not as close to this situation as I should be. I don't know how anybody could keep up with it all. However, thinking particularly of food, and taking porridge oats as an example, they have a carton with the premium, whatever it may be -- a cup or a saucer -- and the same carton without it, and, of course, there is a difference in price to repay the cost of the premium.

COMMISSIONER MacKICHAN: Would it be fair to say the set-aside for advertising came out of the costs of the goods?

MR. McCANN: It is out of the cost of doing business, anyhow.

COMMISSIONER MacKICHAN: Yes.

COMMISSIONER KIDD: In your summary, on pages 1 and 2, particularly on page 2, section 5, dealing with mark-ups, you say, "flexible, variable mark-ups result from the retailer's buying and selling in competitive markets". Would it be a correct assumption that the flexibility of the mark-ups depends more on the prices at which the commodities can be bought than the prices at which they can be sold.

MR. McCANN: Yes, I would say that.

COMMISSIONER KIDD: There would not, then, be so much variability in the selling prices that would

prevail from one chain store to another?

MR. McCANN: No, it is a constantly changing picture, as you possibly know from the other chain store people who have appeared before you, and we have a fairly constant check on competitor's prices, and if we wish to remain in business we must either sell as cheaply or somewhat below.

COMMISSIONER KIDD: Would you say that favourable buying and allowances would be more important to a chain store than its selling price?

MR. McCANN: Well, that is a difficult question. Personally, I feel selling price is all important, because that is the price the customer pays when she comes in for a package. On the other hand, there are frequently special buys of merchandise which, for one reason or another, become available, and we reduce our normal mark-up on those in order to move into consumption quickly. Does that answer the question?

COMMISSIONER KIDD: Yes, that is all right. Following on this summary, Section 6, you say that most of the additional conveniences and services are provided because the modern consumer demands them: Is it that the modern consumer demands them, or have these things been done because they created more demand?

MR. McCANN: Well, certainly, where we are faced by new stores, and if we don't keep our store which happens to be in that area in a spic and span, well maintained condition, we will go out of business. When we do that we try to anticipate

competitors moving in, with all the fanfare, and so on, and we find despite the efforts of maintaining the store that for the time being, at least, we lose some of our volume, and volume is the heart of this business.

COMMISSIONER KIDD: Would you say that the demand had to be created in order to keep this volume up?

MR. McCANN: Well, the demand is there. I don't know who created it. Sometimes I wish it hadn't been, but the demand is certainly there.

COMMISSIONER KIDD: These are costs of doing business?

MR. McCANN: Yes, and costs of setting up these facilities.

COMMISSIONER WALTON: Would you say, first of all, someone thought of it and then the consumers accepted it, and by their patronage it is demanded of it in the trade?

MR. McCANN: I think that states it very well, Mrs. Walton.

THE CHAIRMAN: This is a point which keeps coming up again and again, and I think it is largely a matter of the use of words, although there may be a significant difference between the concept of mere adaptation to current attitudes and capacities on the part of the consumers, and a vigorous attempt to create markets for commodities by advertising. Would you agree that in our type of economy there is a place for demand creation? Would the automobile manufacturer not wish to claim that to some extent he has

created all the activities of the automobile industry by constantly urging on the consumer the advantages of this means of transportation?

MR. McCANN: That is correct.

COMMISSIONER KIDD: Following along that line of thought, as we progress these costs are added, and prices become higher and higher to the consumer?

MR. McCANN: Well, it would appear so, but I think that that is governed completely by competition. Certainly, the consumer pays; there is no question about that. But one wonders if we were still doing business in the old way, whether we would be able to sell at a lower cost. I don't know.

COMMISSIONER KIDD: On page 3 of your brief proper you say in the second paragraph, "It should not be overlooked that many of the changes in food retailing are traceable to preceding advances in agricultural technology, specialization, and large scale operations", and so on. Also, in your previous paragraph, you say that confusion is likely to result if one tries to separate too neatly each stage of the cycle from the others. I am wondering there, Mr. McCann, that if the thinking involved in those paragraphs were carried to a logical conclusion, would this not lead to complete vertical integration from the chain store right back to the primary producer?

MR. McCANN: Well, frankly that paragraph is a little difficult for me to understand, and I am in the business, but certainly there is an inter related process in the distribution, growing and processing of foods.

COMMISSIONER KIDD: And speaking much along the lines of the question that was asked by Mrs. Walton. If, as I say, carried to its logical conclusion, it seems to me that the thinking would result in these complete integration and of course the person at the bottom of the list would not have much to say about the price of his product.

MR. McCANN: You mean the producer?

COMMISSIONER KIDD: The producer.

MR. McCANN: Well, I am not so sure. He is rather vocal, you know, the producer,and rightly so. We certainly think he is entitled to a good return for the effort and time that he spends in growing the food that we eat.

COMMISSIONER KIDD: I am interested in -- throughout your submission here -- you express the viewpoint that modern methods of food marketing are simply one stage of the process of the agricultural cycle and I am wondering if you could elaborate on that more for my edification.

MR. McCANN: In what regard, Mr. Kidd?

COMMISSIONER KIDD: Well, why do you express that view?

MR. McCANN: Well, for example, frozen foods were just coming on to the Canadian market when the

war broke out and delayed the programme. Viscerated turkeys, for example, are now in the main packaged to a great extent at least by the producer's co-operatives and he gets the eggs, raises the pullets, slaughters the birds and takes them to his own or a co-operative packaging plant for viscerating and freezing, and eventually for distribution to people like ourselves who have the retail outlets.

COMMISSIONER KIDD: If there was complete vertical integration with a few large-scale retail operations as the final stage, would you still say that the public well being would be best served by the unrestricted play of a freely competitive profit and loss system? This I took from page 3.

MR. McCANN: I don't say that. I would favour that, but if it should come about -- I don't think it ever will -- but if it should come about, it would depend on the type of people who are operating this business.

COMMISSIONER KIDD: Why do you say you don't think it will come about?

MR. McCANN: Because in my many years of experience in this business I am so convinced that there is room and always will be for the new forces which come into play, the small merchant growing larger, the co-operative organization, the co-operative chain -- the voluntary chain, so-called, which is still and presumably always will be in the hands of the individual merchant; even though he is to all intents and purposes a part of a chain for buying and selling and advertising.

COMMISSIONER KIDD: Well we were told that something better than 50 per cent of the food is sold by the chain stores now and this percentage is increasing. As a matter of fact we were told in Toronto it was now 70 per cent in that area. Do you not envisage that process continuing?

MR. McCANN: Well, I am not and you possibly know, too familiar with the area in the East, but with your permission, Dr. Stewart, I have some figures from our territory in which we operate. We have been there now in our thirtieth year, and if I may have your permission, Doctor --

THE CHAIRMAN: Yes.

MR. McCANN: In Alberta the chain to total -- and these are Dominion Bureau of Statistics latest, July, 1958 figures -- in Alberta the amount of business done by the chain is 40.35; in Manitoba is 38.85 and in Saskatchewan --

COMMISSIONER COUVRETTE: Is this a corporate chain? That would not include the voluntary chains?

MR. McCANN: Yes, I am sure they would include the voluntary chain, Mr. Couvrette.

In Saskatchewan it is 28.57. In other words 71.43 per cent of the total business there is in the hands of what we call the independents.

COMMISSIONER KIDD: I noticed a recent newspaper report that the chains had obtained a certain proportion of the market in various areas, and they were now pushing on to higher levels. I was just wondering if this process is not likely to continue and

will get more and more to the point where fewer and fewer independents will exist?

MR. McCANN: That could be, Mr. Kidd. I certainly hope not because as we have pointed out in our brief we have a vested interest in the independents surviving and doing well because of our wholesale operation, such as Macdonald's Consolidated.

COMMISSIONER KIDD: Turning again to your theory about the place of the farms and stores in this whole process, to a large degree the farm organizations are the ones complaining of the effects of this stage of the agricultural market. On page 4 at the top you say "We view the present structure and organization of food production, processing and distribution in Canada as merely the present stage of a long-term, progressive evolution".

MR. McCANN: Yes.

COMMISSIONER KIDD: These organizations are complaining about the effects on them in this particular stage, so I am wondering can you go further and comment on the effects of this stage on these people and would you still say the methods now in use provide the greatest benefits for the greatest number.

MR. McCANN: Well, I would think so, Mr. Kidd. There is one thought I think we should segregate, the non-foods and the other products of the farm which are subject, for instance, wheat and grains to world markets.

I have a clipping here somewhere which I took out of a Toronto paper, the Globe and Mail on

Wednesday, November 12. "Slaughter cattle up 50 cents to $1". That is an indication that many of the farm prices, certainly the farm food prices are getting back to where they should be, certainly moving upward. You know, we operate almost entirely, with the possible exception of a segment in British Columbia, in an agricultural economy and certainly we would like to see the farmer, the producer, get a fair return, otherwise if he does not it is a pretty poor lookout for us. All of our operations are in agricultural areas with the exception of the B.C. operation.

COMMISSIONER KIDD: On page 8 at the bottom, you offer three choices to the consumer, the last paragraph on page 8.

Would this statement that you made here earlier be true in the case of foods that require heavy promotional expenses in order to have the consumer purchase them?

MR. McCANN: Well, that is a little difficult, Mr. Kidd. Unless it is worth while and has sufficient demand, we ordinarily do not stock it.

There are cases, for instance, of diabetic foods which are not big items, but yet we stock them as a convenience to our customers because you have a free choice and our competitors do likewise.

COMMISSIONER COUVRETTE: Mr. McCann, after all perhaps people continue to buy one thing once, but if there are repeats I don't think that argument can be very strong after that; that there is so much pressure being brought on the customers.

MR. McCANN: Well, Mr. Couvrette, we are in business, of course, to take care of our customer's demands. We have no boss other than the housewife. She is the one that determines and she determines whether or not we will stock an item.

There are possible exceptions. I am thinking particularly what the so-called tenderizers and what have you, "Accent" and items like that which a few years ago were not here, but we promoted the use of them and now they have become a standard part of the standard stocking plant. The only reason they have is because the customers continue to buy them and use them.

COMMISSIONER KIDD: Perhaps my question would be better directed to the manufacturers. I am thinking in terms of the food suppliers who spend say 10 or 12 per cent on advertising. Apparently they must keep doing this to maintain their sales volume. So perhaps we can leave that to the processors.

One more question, Mr. McCann. I might say I have a great many more questions to ask, but time is running out and two more people want to ask questions.

There is one more point at the top of page 11: "Costs of labour are the major costs of retailing foods." You say they account for over half of the total expenses of operating the retail store after the merchandise has been purchased.

Would you explain that? What does the half amount to?

MR. McCANN: Well, assuming that the operating

store has a cost of 12 per cent, the labour factor is in the vicinity of 6. That would be half, and actually it is just about that ratio.

COMMISSIONER KIDD: About that ratio. Your labour costs, that would be wages and salaries?

MR. McCANN: Yes, we call that employee costs. That is wages, salaries, pension plan, sick benefits , vacations and so on.

COMMISSIONER KIDD: About 6 per cent?

MR. McCANN: Yes. I would say 5-1/2 to 6 per cent. I can get that for you exactly. I think it may be in the questionnaire.

COMMISSIONER KIDD: All right, thank you.

MR. McCANN: Thank you, Mr. Kidd.

COMMISSIONER DRUMMOND: Mr. McCann, perhaps I may begin by following up in a slightly different fashion one of the questions which Mr. Kidd has just been asking. In the earlier pages of your brief you state that the Commission has been paying special attention to the development of the last decade, but in your opinion we might be better advised to consider what has been happening over a considerably longer period.

What I am wondering about here is this: Whether you have the idea or feeling that if we do so examine for a longer period that we would find this thing which we call the gap or spread might now rather than widen at, say, a certain five-year period, following by a widening in the next five years and followed by a narrowing in the next five

years, that general idea, and following that idea through do you feel that perhaps the next five years through now might be a period in which we would witness a narrowing rather than a widening of the spread?

MR. McCANN: I sincerely hope so, Doctor Drummond, and indications are -- I think the point is made in the brief -- the latest figures are not available for 1958, but I think there are indications that may take place.

COMMISSIONER DRUMMOND: I think a lot of people would be hoping you are correct.

I want to ask you two or three questions in regard to this general matter of competition. You referred several times to the fact that the industry generally is highly competitive, and I think we can all agree, but what I wanted to discuss further is the basis or bases at which competition actually takes place.

Now, I think you have stated in considerable detail that you in fact do compete and virtually forced to compete on a variety of things on a price basis certainly but in addition to that by offering all sorts of types of competition, whether it is increasing the variety of commodities or producing new commodities, conducting various promotional programmes including your store fixtures and what not. Now, all of these forms of competition, I presume, cost money?

MR. McCANN: Yes.

COMMISSIONER DRUMMOND: Would it be your opinion, a fair conclusion that in recent years there has been a very pronounced expansion of these non-price forms of competition, that these forms of competition have been detached and will give you the most results, the results that you desire for a given expenditure?

MR. McCANN: I would say they have aided or assisted, whether or not they have all been worth while I do not know, and I do not think anyone else can say with certainty either. Often times we are afraid not to, put it that way.

COMMISSIONER DRUMMOND: But your general objective which the records indicate is actually being achieved is to expand volume thereby reducing your unit cost.

MR. McCANN: That is right.

COMMISSIONER DRUMMOND: And, of course, incidentally increase your total profit. Now, since these various types of competition are apparently achieving this objective for your firm or for any other individual firm that uses it, they achieve it, do they not, by causing a contraction of sales of somebody, some one or more of your competitors?

MR. McCANN: Well, there is just so much business to go around. On the other hand, certainly in some points in Western Canada there is an expanding economy and an influx of people.

COMMISSIONER DRUMMOND: We can probably agree that the total amount of food people will consume no matter who puts on the pressure to consume it

.2

is strictly limited.

MR. McCANN: That is right.

COMMISSIONER DRUMMOND: And if your particular firm manages to cater to a larger percentage of the total food requirements then somebody else must get a smaller share?

MR. McCANN: That is right, yes.

COMMISSIONER DRUMMOND: What I am coming to is this, this is getting on the same question Mrs. Walton asked: If this is the case, would it not seem to follow logically that your firm or some other individual firm could lower your costs and achieve your general objectives, but the retail industry generally could not do so, and that the cost of achieving this extra business which you enlarge on here would actually result in a net increase in the total cost to consumers generally in doing the marketing job.

MR. McCANN: If I might ask a question: This is on the assumption that the field was clear?

COMMISSIONER DRUMMOND: Yes.

MR. McCANN: Well certainly it could, but I do not think it will.

COMMISSIONER DRUMMOND: You do not think so?

MR. McCANN: No, for this reason, the margin, the profit margin is so low that a little variation and we would be among the people who were not here.

COMMISSIONER DRUMMOND: Might I ask this in a slightly different way again: You have presumably, and all your competitors likewise, you have several alternatives in seeking to get extra business. You

can do all these things we mentioned before, improve your store, increase the size, provide parking space and provide all the promotional programmes, but can also simply offer a price deal. Would it not be actually simpler to look for the extra business by simply offering a price deal, and if so why do you not do it?

MR. McCANN: That is a very interesting question, and I think the best answer I can give to that is the one I gave before that we hesitate just to not join the group. We certainly have discussed it and toyed with the idea, and maybe we will do it. It is certainly interesting.

COMMISSIONER DRUMMOND: Do you feel from your experience in the last several years, the years the Commission is particularly concerned with, that that period because of the relatively high consumer influx that that period was one in which this thing we call the price appeal was relatively ineffective?

MR. McCANN: I think the average housewife is very conscious of price, there is no question about it, but I think it is just one of several factors. In my opinion, cleanliness is just as important as price. I do not think the average housewife will go into a store that is continuously dirty and in an unkept condition to buy things regardless of price. I think price is a major item, but I do not always rate it first.

COMMISSIONER DRUMMOND: You will agree with me in a period when people actually have more money to spend that the purchasing power is improved, that

they think of something other than the price charged.

MR. McCANN: I do not think there is any doubt about it. If I can answer that with an item I have here on fancy foods market in all our stores. A few years ago we did not carry them, but now the reason we carry them is because people demand it.

COMMISSIONER DRUMMOND: You spoke of consumer acceptance, the word "acceptance" to me suggests that somebody offers somebody else something, and they either accept it or reject it. In this case they accept it. In other words, you recognized the potential demand, you catered to it and they accepted it.

MR. McCANN: That is right.

COMMISSIONER DRUMMOND: Now, you put a lot of emphasis on this idea of expanding your volume and in the end it will lower your unit cost, what do you think about the possibility that the stage may come when the costs, the operating costs that are required to get this expanded volume may be as large as the savings resulting in your unit overhead as a result of the larger volume?

MR. McCANN: You mean by the so-called gimmicks?

COMMISSIONER DRUMMOND: Yes.

MR. McCANN: Yes, that is true.

COMMISSIONER DRUMMOND: You see, on the one hand the cost of money to get the larger volume, that is operating expenses.

MR. McCANN: That is right.

COMMISSIONER DRUMMOND: On the other hand,

if you get the large volume you reduce your overhead.

MR. McCANN: That is right.

COMMISSIONER DRUMMOND: You are saving on one hand and paying out on the other. When may those two balance?

MR. McCANN: Well, I do not know, but this I do know, that in 1939 or 1940, back in those years, we used to have, and any merchant would expect from 30 per cent to 33-1/3 per cent mark-up on meats. Today, week after week that is reduced by half and in some cases lower.

COMMISSIONER DRUMMOND: I have one or two other questions, and one relates to the last section beginning with profits: You mention there, and I think again in Appendix F, that the net profit rate has remained remarkably constant?

MR.McCANN: That is right.

COMMISSIONER DRUMMOND: I think an actual examination indicates your net profit rate was actually at its highest in 1957, slightly higher than at any other time?

MR. McCANN: Yes, that could be, I think that is just about right.

COMMISSIONER DRUMMOND: I think the record here also indicates that in 1957 your sales volume was also at its highest level?

MR. McCANN: That is right.

COMMISSIONER DRUMMOND: Which means in that same year you had your net profit rate and the sales volume up both at their highest level, obviously your

total profit must have been highest?

MR. McCANN: That is correct.

COMMISSIONER DRUMMOND: The thing that struck me as significant was the fact you are putting emphasis on the volume sales, but also rely on a high profit rate for the same period.

MR. McCANN: Well, that may be an unusual circumstance. I have before me our statement for the four weeks ending October 4th and not only is the profit rate lower than it was in the corresponding period a year ago, but it is lower than in the 40 weeks ended a year ago, so that may be only a temporary situation.

COMMISSIONER DRUMMOND: Those are all the questions I have at the moment.

COMMISSIONER COUVRETTE: On page 3, No. 4, in those two very meaningful paragraphs, the second and third of No. 4.

MR. McCANN: Yes, freely competitive?

COMMISSIONER COUVRETTE: Yes.

MR. McCANN: Yes.

COMMISSIONER COUVRETTE: Could you give an illustration of what you mean under the sections of that paragraph, legislators or regulatory attempts?

MR. McCANN: Well, I think that merely suggests that legislation or regulatory attempts to protect or improve the system, or its particular segments, no matter how well intentioned, may -- I think that is the point, it is "may endanger and restrict", it does not say it will, it says it may.

(Page 3684-A follows)

COMMISSIONER WALTON: Had you in mind restrictive trade practice legislation and that type of thing?

MR. McCANN: Not so much the restrictive trade, I think of the Combines Act when you mention that, not in that sense, no.

COMMISSIONER COUVRETTE: Would it not be possible for you to give us some illustration of where it would?

MR. McCANN: Well, it just depends on how far afield you wish to go. I have a friend returning from a place where everything is on that, and I am sure it is for the record that a chocolate bar costs the equivalent of 60 cents, a five-cent chocolate bar. Does that answer your question, Commissioner Couvrette?

COMMISSIONER COUVRETTE: Well -- yes.

COMMISSIONER DRUMMOND: Just one little point: You mentioned on page 12 about the peaks and valleys and the difficulties there today in eliminating it, do you have any hope there?

MR. McCANN: That is a pet topic of mine. I think we had the best opportunity in our generation to encourage the shopping throughout the week during the war when foods were in short supply and the people were willing to inconvenience themselves. I suggested to my people, in fact asked them, to make sure that merchandise was put out on sale a bit each day and especially towards the first part of the week. Well, I do not know whether it was a good idea or not, it certainly did not

work because the farmer comes in on Thursday and they come in on Thursday and want some things then and in British Columbia the people come in on Saturday. You can well imagine how this worked out. We can only try and do all sorts of things, but it has not been too successful.

COMMISSIONER DRUMMOND: Would you think the peaks are getting higher or the valleys lower, or is it getting any worse?

MR. McCANN: I don't know. I don't think it is getting any worse.

COMMISSIONER WALTON: With the one-stop shopping don't you think the bank roll gets stuffed once and then depleted and it takes some days to recover, in some of the homes?

MR. McCANN: It could be the case. Saturday morning has some bearing on it; we notice an upswing on Saturday mornings.

COMMISSIONER DRUMMOND: I believe you have undertaken some degree of production of your own supplies; is that correct?

MR. McCANN: That is correct, yes.

COMMISSIONER DRUMMOND: How extensive is that? What commodities are affected?

MR. McCANN: Well, we manufacture our own jam, which I think is very good. That is one, and it is very important quality-wise, and it helps us in having something that is not available to everyone.

COMMISSIONER DRUMMOND: That is your general reason for doing it?

MR. McCANN: Well, that, plus the fact that it is profitable. Then, we have our own fruit and vegetable processing. We have one of each: one in Okanagan, B. C., and one in Tabor, and we do that because it gives us some degree of quality control, and we also make a point of stocking general manufacturers'

products.

COMMISSIONER DRUMMOND: Will this also act as a sort of a measuring rod to you in respect of what the product should cost when you are buying from other people?

MR. McCANN: That would be an indirect result, but it gives us a good opportunity to compare the quality and make sure that we have quality control all down the line.

COMMISSIONER DRUMMOND: Have you any thought of expanding that general idea?

MR. McCANN: No.

COMMISSIONER COUVRETTE: All along, since the start of the work of this Commission, there have been some implications made to the effect that through modern ways of publication people can be made to buy what they don't want; but then, of course, why should there be a difference, when you can't get them to buy when you want them to come to your store and buy? In other words, how can you get people to buy what you want them to buy and not get them to buy when you want them to buy?

MR. McCANN: That is a double-barrelled question.

COMMISSIONER COUVRETTE: Well, can you set a difference between the two?

MR. McCANN: I think about the best answer I can give to that, assuming I understood the question -- and I think I did -- is that we, with new items that we manufacture, make special displays of

them and give them advertisements, and in some cases we have our staffs building them up in an effort to get people to buy them. All our merchandise -- and I am sure our competitors' too -- is fully guaranteed to give satisfaction or the money refunded. So, we use that, and we use the displays, and occasionally we use the odd gimmick. Does that answer the question?

COMMISSIONER COUVRETTE: Yes, but the main point of my question was that I cannot feel so sure it is so easy to make people buy what you want them to buy if you cannot succeed in bringing them in at the time you want them to be in -- on Mondays or Tuesdays or weekdays. According to me, it lessens the importance of the implication.

MR. McCANN: Well, as I say, we haven't been very successful despite all the appeals to the practical. We tried to get things on the first part of the week which have a special appeal to the housewife, and then we take a look at the calendar and see that the 15th was payday, and that the 9th is coming up and that probably the budget is running low, and we put on good quality, low-priced sausage, or something like that. The big bulk of business is governed (1) by weekends, and (2) on days on which pay is distributed.

COMMISSIONER COUVRETTE: After all, the consumer still has his say?

MR. McCANN: He surely has, and I am sure it is always going to be that way.

COMMISSIONER DRUMMOND: Would there be any result at all on having your big ads on Monday night and Tuesday night rather than Thursday night?

MR. McCANN: Well, we again, following the trend of the all-important availability of the dollar, for example, in Manitoba we have a five-day week, and on the assumption that payday is going to be a Tuesday we run large ads on the Monday, and whether or not we would get the business without it, we don't know.

THE CHAIRMAN: Mr. McCann, this is not quite a fair and reasonable situation: there are seven of us and one of you, and you have to play both the offensive and defensive game, but we will stop at twelve-thirty, but there are ten minutes left, and if you don't mind I have a question or two.

MR. McCANN: Surely; I will be very glad to answer them.

THE CHAIRMAN: May I make an observation on the figures which you quoted from the DBS on the proportion of business done by chains and independents?

MR. McCANN: Yes.

THE CHAIRMAN: We checked on these yesterday, and, as we understand at the moment -- and we will be checking again -- the figures which DBS releases indicates the percentage for corporate chains only, and we are advised they are not able to distinguish between the sales of the independents in the voluntary chains from the other independents, so I think these figures are corporate chains only.

MR. McCANN: That could be true. I had one

of the youngsters in my office prepare them, and it was my understanding that they were for both corporate and the voluntary.

THE CHAIRMAN: Well, we will be checking again, but at the moment that is our interpretation.

MR. McCANN: Yes.

THE CHAIRMAN: One other relatively minor point: at two or three places you mention the introduction of the non-food items in the chain food store operation, and at one point you leave the impression that the markets on these non-food items are set by tradition, and you illustrate various factors which affect mark-up, and tradition is one of them. Later, when you are dealing with spread on food products, you indicate that the inclusion of these non-food products, with a higher mark-up, has enabled you to keep down the spread on the food items. Am I correct in that?

MR. McCANN: Yes.

THE CHAIRMAN: There seems to be an interesting implication here, namely, that these non-food items are relatively profitable, and yet the mark-ups persist at a high level.

MR. McCANN: Yes, that is correct.

THE CHAIRMAN: What is the explanation of this phenomena?

MR. McCANN: I think possibly one explanation is the use of the health and beauty aids is increasing, and with those, as with every other item of merchandise we sell, we must be competitive with our

6

competitors. However, there has been, obviously, from the number moving onto the shelves and to the customers' homes, a large increase in the use of them. I think, for example, more tooth paste is being used today than ever before, even on a per capita basis; the display of it, and the new vacuum tins. I think it is possibly used even a little bit more lavishly than in the old days.

THE CHAIRMAN: I would think that if it were generally known that because of tradition, or for any other reason, the mark-up of a particular type of commodity did, in fact, give a relatively high profit, that something would happen to bring the mark-up down -- if there was real competition in the field?

MR. McCANN: Well, that certainly could be correct. On the other hand, tradition plays an important part at the other end of the ladder with, for example, sugar. The mark-up on sugar is not very high -- and flour in the larger sizes.

THE CHAIRMAN: There are one or two commodities like that we have been interested in, where the mark-up seems to be low. Is sugar just tradition? Is it a question of cost?

MR. McCANN: Coffee is another item too. I think possibly, people were brought up in this business -- and the gentlemen on the Commission who are merchants will know that in the main, especially in the larger sizes, sugar on many occasions just meant an exchange of dollars.

THE CHAIRMAN: I would like you to look at

our chart here for a minute, and we appreciate the charts which you have included in your brief but which look at these indices in a different way. I would say our statisticians are not unaware, and are making us aware, of the qualifications which are necessary in using this chart for the purposes of this Commission. However, we have prepared it because the consumers have quoted this index at the top to us, and the farm producers have quoted the index at the bottom. Let us admit, without arguing about the qualifications required, that the significant thing which this chart indicates -- and no other calculation can get around it -- that retail food prices have been going up broadly during the period, and farm prices have been going down. This is the essential phenomena of rising retail prices and lower farm prices. Dr. Drummond has brought out in the questioning that obviously this rise in retail prices reflects a growing demand on the part of consumers. Would you agree with this -- that you would have rising prices if there is not enough effective demand in the market to take the commodities off that rise in price?

MR. McCANN: That is right.

THE CHAIRMAN: On the other hand, as you, yourself, have brought out in relation to farm products many of them are sold in export markets and can be imported into this country in many cases perhaps subject to some import duties; but, there is a competitive relationship in the farm material prices which may extend the fall. There is nothing I have said so far which you would disagree with?

THE CHAIRMAN: Well now, this is an interesting situation for a business man to be operating in, is it not?

MR. McCANN: Yes.

THE CHAIRMAN: We can look at this relationship between the price fall in farm prices and the rise in material prices and say those things have happened because in the market areas costs have increased and they have pushed up the retail price, and they have pushed down the farm price.

I take it you would not agree with that?

MR. McCANN: No.

THE CHAIRMAN: That basic explanation of this phenomena, nor would I as a matter of fact; but assuming that that is not the basic explanation, this is still a very interesting situation for a business man to be operating in, is it not; where prices of his products are advancing and the prices of his raw materials are falling?

MR. McCANN: Yes.

THE CHAIRMAN: A very profitable situation, would you say?

MR. McCANN: Well, Doctor, I think that there are several factors on that. Certainly I am not an economist, but if we note on the bottom, 1951 is the Korean War which caused an advance in farm prices and I believe in world farm prices.

In 1954 we had the field grains badly effected on the world market. Now, Doctor, may I ask are those all included in that lower line?

THE CHAIRMAN: Yes, they are. There are some definite qualifications I think that have to be made but I don't think we can get away from the fact that the retail prices have been going up and the raw material prices generally have been coming down.

MR. McCANN: Well --

THE CHAIRMAN: This is just a statement.

MR. McCANN: May I carry on just a moment, Doctor? Last year I think the season possibly had something to do with both the consumer prices and the farm prices. In 1956 the situation in Suez, for example, affected the sugar price tremendously.

The coffee controls and efforts to stabilize in Brazil advanced prices, I think. They have been reduced as much as 35 or 40 cents a pound since then. Sugar has dropped progressively.

There are, for instance, oranges which I understand were in the price index. They have been very badly affected by frost and other conditions. They are coming back on the market.

With this combination of lower costs, providing meat doesn't get ahead, I think that we will see: one, a decline in the consumer food price index, and I hope sincerely with this improvement in farm products that lower line will move up and the top will move down somewhat.

I think that is going to happen. I may be wrong. I don't know.

THE CHAIRMAN: Supposing it did, wouldn't this actually mean an entirely different kind of

situation in which the food merchandiser would be operating? Wouldn't you find that the things that you could do and that were profitable to do, would be far different in a situation in which the tendency was for the end products price to fall, and you were still paying more for the raw material?

MR. McCANN: That certainly would be different, Dr. Stewart.

THE CHAIRMAN: The implication is it has been possible in this period to do certain things because of expanding consumer demand and because at the same time you have been able to purchase raw materials relatively cheaply.

MR. McCANN: Well, the manufacturer has been able to purchase them.

THE CHAIRMAN: Yes.

MR. McCANN: Well, that is right. I think there it would be fair to say that if that happens we will return possibly to somewhat the same level. We will return to the period which existed in 1949 when the lines with slight exceptions were pretty well on an even keel.

THE CHAIRMAN: We are going to have some problem about looking at this question of profit, and the evidence that we have referred mainly to the profit as a comparison of sales.

MR. McCANN: Yes.

THE CHAIRMAN: You appreciate that this is a fairly low percentage, but on the other hand -- let me ask you this question -- has this not actually been

a fairly profitable period in the food merchandising field?

MR. McCANN: Yes, Doctor, it has.

THE CHAIRMAN: You emphasize properly the necessity in an expanding situation that capital can be attracted in order to provide facilities for expansion. You have been expanding tremendously. What sort of factors are significant to the investor in attracting capital? I mean, how does he look at an operation of companies? Does he look at the percentage of profit to sales or the other criteria that he uses and whether it is a good industry to invest in, and if so, what all would that be?

MR. McCANN: Well, judging from my experience in stocks, Doctor, I am not too qualified to speak, but I would think that the number one thing is the management, and management after all -- or earnings really, are just a reflection of the ability of management.

THE CHAIRMAN: How do you describe the earnings to the prospective investor?

MR. McCANN: Well, of course, they are all set out in forms, and the amount of earnings per share. I think that is the generally accepted method. For instance, earnings per share of a $1.20 or $1.40, and they are paid 80 cents or whatever it happens to be; but I believe the average person seeking investment, the first thing he wants is security, and secondly a reasonable return. I am sure that is right.

THE CHAIRMAN: I am not asking the questions particularly about your company. I am generalizing here; but the firms in the food merchandising business have had no great difficulty attracting capital in the last 10 years, have they?

MR. McCANN: Well, during the so-called hard money period it was rather difficult, and then during the Korean War, building was restricted, as you know. Last year with the relaxing somewhat of money controls, it was possible to obtain more capital to carry on the expansion.

THE CHAIRMAN: You have been able to go to the market and capital can be readily acquired at competitive rate.

MR. McCANN: We have always been able to acquire it at certain rates, but they are too high.

THE CHAIRMAN: Too high in what sense?

MR. McCANN: In the percentage rate. That is merely a personal observation. It has been done, but certainly money costs are higher now than they were a few years ago, but I am not an expert on money, on financing.

THE CHAIRMAN: We do appreciate your courtesy and your kindness in answering our questions.

MR. McCANN: Thank you, Doctor.

THE CHAIRMAN: We will adjourn until 2 o'clock this afternoon when the first brief is Loblaw's.

--- The hearing adjourned until 2 p.m.

AA
PM:iz
11/13

---On resuming at 2.00 p.m.

Submission of

LOBLAW GROCETERIAS CO., LIMITED

Appearances:

Mr. R. G. Meech, Q.C.	Vice-President
Mr. A. Agnew	Vice-President, Meat Operations
Mr. E. Davidson	Vice-President, Warehousing and Distribution
Mr. A. H. Edwards	Manager, Manufacturing and Bakery Products
Mr. G. E. Huffman	Vice-President and General Manager
Mr. W. C. Miller	Manager, Dairy Products Department
Mr. E. Rainey	Merchandising Manager, Produce Division
Mr. N. J. Spence	Vice-President and Director of Store Operations

\- - - - - -

THE CHAIRMAN: The brief this afternoon is on behalf of Loblaw Grocerterias Co., Limited, and Mr. Meech is presenting the brief. I notice you have a number of your colleagues with you. Would you introduce them to us?

MR. MEECH: Mr. Chairman, may I make this personal observation, that the food industry is delighted with the honour that has been conferred on you in being appointed Chairman of the Board of Broadcast Governors. It is a very high honour and

2

your acceptance of it is so typical of your devotion to public affairs in Canada.

I have brought along, in addition to myself, and I was pleased after your observation this morning about you outnumbering Mr. McCann that we now find ourselves in the ascendancy, we have a group of eight, and I thought it would be of interest to you to meet and know the men who run our company. I will give them in alphabetical order:

Mr. A. Agnew, who is Vice-President of our Meat Operations, and he has had twenty-two years in the food business with our company.

Mr. E. Davidson, who is Vice-President of our Warehousing and Distribution, and he has had thirty-two years in our company.

Mr. A. H. Edwards, Manager of our Manufacturing and Bakery Products, who has had thirty-one years with our company.

Mr. G. E. Huffman, Vice-President and General Manager, who has had thirty-four years with our company.

Mr. W. C. Miller, Manager of our Dairy Products Department, who has had thirty-one years in the food business and nine years with our company.

Mr. E. Rainey, Merchandising Manager, Produce Division, who has had twenty-four years with our company.

Mr. N. J. Spence, Vice-President and Director of Store Operations, who has had thirty-one years with our company.

These men were comparative youngsters when they started and they have had a lot of experience. I thought we could add them as living exhibits to our brief, and they may help you in solving this problem.

Mr. Chairman, Mrs. Walton and members of the Commission: The Loblaw Company was born from the need of thoughtful and forward-looking food merchants for methods that would lower the cost of doing business.

Mr. J. Milton Cork (who died in 1957) was a grocer on College Street west of Bathurst Street in Toronto. He was experienced and successful by the standards of the individual merchant in the early 1920's. He took telephone orders, made deliveries, and allowed credit. He bought his supplies through wholesale merchants.

Mr. T. P. Loblaw, who as a boy had been an employee in the Cork store, brought to Mr. Cork's attention a report of an attempt to operate a self-service cash-and-carry store in Rochester, New York. Mr. Cork visited this store, made some observations and decided that with modifications it was a practicable venture for Toronto. But as he was operating a successful store in the old method, he and Mr. Loblaw decided to try the new system in a building they succeeded in renting on Dundas Street West in the vicinity of Keele. The fixtures were crude and cheap, the store was stocked with staple fast-selling goods, bought through wholesalers, and each item carefully price-marked at as low a spread between

wholesale and retail prices as possible. (Mr. Loblaw died in 1933.)

The whole test was whether the cost of telephone orders, credit, delivery and individual service could be eliminated and the store build a sufficient volume to make it profitable on an extremely small net between cost and selling prices.

To the merchant the cost of giving credit was one or two per cent. In some stores and districts delivery cost was as high as ten per cent of selling prices. The cost of clerks and the receiving and recording of telephone orders was a less definite figure. Nevertheless it was relatively substantial.

Elimination of these costs would benefit the consumer and still leave a net profit to the merchant. Store Number 1 was a success. A new company was formed and the second store was one acquired from the late C. B. Shields in Parkdale. The self-serve principle was firmly established in the minds of Messrs. Cork and Loblaw. Their pioneering work in this field has been followed by all other chains. If this method of merchandising had not been established throughout Canada, and indeed throughout the North American continent, the spread between farmers' prices and consumer prices might be much greater than it is.

In 1919, a few years before the Loblaw Groceterias Co. was formed, a special committee of Parliament held an investigation into the cost of living in Canada, which in those days, just after the

first world war, was regarded as being too high. The prices of commodities in general at that time might seem low, if compared with prices prevailing today, but it must be remembered that the 1919 dollar was worth considerably more in purchasing power than the dollar of 1958.

Some paragraphs of the 1919 committee's report may be quoted here as pertinent to the present inquiry. These are:

"1. That so far as your Committee are able to discern, no material reduction in the cost of such commodities as above indicated can be expected, except by increasing the volume at a lower cost of production or by lowering the cost of distribution (Committee Report, page 8).

"9. The expensive and frequent deliveries at present called for add very materially to the cost of the goods. Whether this can be eliminated or not is a matter that can only be settled by the consuming public. (Committee Report, page 9).

"24. The Committee desire to point out that some of the responsibility for higher living costs, in their opinion, rests upon the consumer's wasteful buying, as for example, in the case of meats. The ordering of household supplies by telephone where the usual habit is to order the best may be mentioned as another case; and this has a distinct relation to the third, namely delivery costs. These are no

doubt run up by an indiscriminate use of the telephone in making several orders to the retailer in the course of a day. During the period of high wages which attended the increase in prices the public has been demanding a high class of goods of all descriptions, which is a matter entirely within the control of consumers. Lack of diligence in buying is also a factor in increasing living costs." (Committee Report, page 12).

It will be noted that some of the faults upon which the committee put its finger plainly suggested a chance for alert merchants to cut the cost of living, thereby benefiting the consumer through lowered living costs and themselves through attracting a larger volume of business. It was obvious that the cost of telephone orders, credit and deliveries added to the prices of goods. If these unnecessary costs could be eliminated, the saving would be worthwhile from both consumer's and retailer's points of view. But it was equally obvious that the new cash-and-carry system depended for its success on the willingness of consumers to change their buying habits. It is a matter of record that they did change their buying habits quickly when they realized the substantial savings they could make under the new system.

In the days when Messrs. Cork and Loblaw were pioneering self-service, the impelling motive was to find a way which would offset the advantages department stores then had in the distribution of

foodstuffs. For not only did department stores make deliveries in cities where they operated, but their mail order houses were delivering groceries by railway to communities far from their warehouses.

Prior to the establishment of chain food stores, the usual wholesale routine was that any goods sold direct to retailers by manufacturers or processors were not acceptable to wholesalers. Thus manufacturers and processors had the choice of using the wholesale organization or the expense of setting up their own distributive system.

In the 1919 investigation into the cost of living it was discovered that one of the major factors in the retail prices of foodstuffs was the cost of wholesaling. The average cost of handling goods by the wholesalers of that day was about 12 per cent of their turnover. (Committee Report, page 436). The wholesalers could defend this percentage as legitimate. They had travellers on the road selling to a multitude of small customers. They had to keep large stocks of goods in their warehouses. They had to give quick service to their customers, although the individual orders might be small. They extended credit and incurred bad debts besides having customers who were slow in paying.

Reform of the old system of wholesaling was inevitable once it became clear how wasteful it was. By assuming a large part of the necessary functions of the wholesaler, such as warehousing and distribution to the stores, the Loblaw organization was able to make immediate savings in the costs of food and share these

savings with its customers. At the same time it eliminated other wholesaling costs, such as credit, bad and doubtful debts, costs and commissions of travellers.

Besides giving credit to retailers, wholesalers on occasion were speculators in commodities. (Committee Report, pages 416 and 417). They also had credit at the banks.

When the Loblaw Company became large enough, it established its own warehouses where all of the real essentials of wholesale distribution were carried out. These essentials were the gathering together of goods in quantity and the breaking up of the amounts in quantities small enough for individual stores. No bank credit was involved and it is contrary to Loblaw policy to be a speculator in foodstuffs.

There are occasions, however, when the Loblaw Company provides credit for processors and manufacturers in Ontario and elsewhere in Canada in advance of a crop season. This is to the common advantage of both the buyer and the manufacturer because it assists in financing and assures Loblaws of adequate supplies of the new crops. It also helps the processor in his pre-season contracting with primary growers.

In the early days of chain food stores many manufacturers and processors were reluctant to sell directly to the chains in the mistaken belief that the chain store system was a passing fancy or that avoiding wholesalers as they were set up in those days would ultimately react to the detriment of

the processor or manufacturer. Today all, or practically all, of the thousands of items in the Loblaw inventory are bought direct. Over 75 per cent of these goods go through the central warehouse in Toronto and are distributed to the various stores between Cornwall, Ottawa and Windsor and to the north. It is a fact, of course, that every system, no matter how carefully designed, is subject to exceptions. The exceptions in the case of Loblaw apply mainly to local perishable farm products which are bought and delivered directly to stores in certain neighbourhoods.

(In the last three years the company has been expanding in western Canada and now operates five stores in that region. The company also owns controlling interests in Loblaws Inc., operating in western New York, and in the National Tea Company with head office in Chicago).

The pioneers of the chain food stores brought about a real reform and economy in wholesale distribution. Corroboration of this already has reached the Royal Commission in the evidence of Mr. R. H. Bainard of National Grocers Limited who testified at your Toronto hearings on September 17th about the manner in which that company, probably the largest wholesale food dealers in Canada, conduct their business. It is evident that their success over the years since the advent of the corporate chain store has been due to the adaptation of a system which eliminates in large part the former expense of

distribution to the independent merchants as individuals or in voluntary chains. The prices which the individual merchant pays the wholesaler evidently vary according to the degree of service the individual merchant needs or demands. In wholesale warehouses today there are even cash-and-carry operations for the individual retailer. He thus eliminates the expense of credit and the expense of accounting, in large part, by shopping for himself.

Loblaws also were pioneers in the large-volume store.

One important fact in the effort to keep down costs of distribution is the growth in the size of stores. Sales per square foot of floor space have grown more proportionately than the size of the store. Twenty-five years ago the older type of service store probably did a volume of $50,000. At that time a Loblaw store would be doing about five times the amount of business although it would not have five times as many square feet of selling area. No one has given a satisfactory definition of the word supermarket, but it is generally taken to mean a retail store of very large size and large volume of business. The volume might run to $1,000,000 per year and there are instances where sales in certain individual stores have run to $5,000,000 or even more in some parts of this continent.

The increase in volume has been a part of the eternal search by merchants for means of reducing the cost per dollar of sales.

The modern chain store, including its wholesale or warehousing operations, has adapted every conceivable device for the low-cost handling of goods. These devices range from punch-card systems for inventory control and accounting to overhead trolleys and other mechanical handling apparatus which facilitate and speed the work and reduce to a minimum the amount of handwork that must be done. In spite of all this the percentage of costs to dollars of sales tends to rise. The Royal Commission has had previous testimony on this line. It was pointed out that local municipal taxes are much higher than they were ten years ago, as is also the gasoline and diesel tax. The tax on motor fuel is an important item of cost in wholesale distribution because only with motor vehicles capable of carrying good size cargoes can the retail stores throughout the province be serviced. The Ontario tax on gasoline is now 13 cents a gallon, increased from 11 cents in 1957, and 18½ cents on diesel motor fuel.

The increase in real estate taxes has been of major importance over the last ten years. Here are three examples:

> The company's main warehouse at Fleet and Bathurst Street, Toronto, was taxed at $38,681 in 1948. The same building, without any additions to it, was taxed for $84,934 in 1958.
>
> Two retail locations will illustrate the rise in other municipal taxation. 688 Dundas Street, London, was taxed at $1,442 in 1948.

The same property was taxed at $2,728 in 1958.

The store at 1630 Danforth Avenue, Toronto, was taxed at $3,475 in 1948 and $7,913 in 1958.

It also should be noted that the larger food stores are assessed for business tax purposes at 50 per cent of the realty tax or realty assessment. This has come largely in the last ten years. Under the Ontario Assessment Act, retail establishments in all the large centres are assessed at 25 per cent of the realty assessment unless they are department stores or stores dealing in more than five lines of trade. The courts have decided that supermarkets deal in more than five lines of trade with the consequence that the business assessment and the business tax have doubled.

Chain store warehouses, as with all other warehouses in the province of Ontario, are assessed for business purposes at 75 per cent of the realty assessment. In the case of a large supermarket, therefore, the taxable assessment is 150 per cent of the realty assessment and in the case of warehouses it is 175 per cent.

Wages also have risen substantially. In a previous public inquiry into food distribution, it was shown that a self-service store had a labour cost of a little more than two cents per dollar of sales whereas a service store of the old fashioned type then generally prevailing had a labour cost of seven or eight cents per dollar of sales. Wage costs per dollar of sales have again reached seven or more

per cent. The increased rate of wages in the service industries, including retailing, is responsible for this in part. Other costs which are included in the wage costs are various fringe benefits, which have been granted voluntarily by the company or are included in labour agreements or have become in the last decade or so mandatory payments. These include pension costs, hospitalization costs, sick leave, unemployment insurance and workmen's compensation.

Transportation wages: Since 1948 wages of truck drivers employed by Loblaws have risen 75 per cent. There are currently negotiations for a further increase. In the last ten years there also have been increases in fringe benefits including rest periods, pensions, statutory holidays, garments supplied, group insurance, sick leave with pay, overtime premiums, increase in vacation pay, etc. These in 1958 are costing the company over 33 cents per hour so that the cost per hour worked to the employer is approximately 111 per cent higher than it was in 1948.

Another factor has been the reduction in hours of work.

Freight rates: Since April 8th, 1948, there have been no less than ten increases in freight rates. The cumulative increase has been 120 per cent of the rates applying on April 7th, 1948. These increases were 21 per cent, 8 per cent, 16 per cent, 20 per cent, 12 per cent, 17 per cent, 9 per cent, 7 per cent, 7 per cent, and 11 per cent. In addition there is pending a further application for a 19 per

cent increase which, if granted, would make a cumulative increase over the rates prevailing prior to April 8th, 1948, of 143 per cent.

It may be noted that the Loblaw Company is not a user of railways in its distribution to any extent, but there still is an appreciable intake of railway freight of farm-grown products. One item to which this applies is butter, much of which reaches Ontario from the western provinces. Potatoes from New Brunswick and Prince Edward Island are another item. Other substantial incoming freight shipments are poultry, beef and British Columbia fruit.

In addition to the direct increase in railway freight costs there is a reflected increase in costs of other kinds of transportation. In every field of activity transportation costs have risen with the result that primary producers are certain to get a smaller percentage of the consumer's dollar no matter how efficient and careful is the distribution system.

There has been some comment before the Royal Commission about the fact that chain food stores and undoubtedly all retailers employ a considerable number of part-time help. This, it is submitted, is a social advantage as well as a factor in the merchants' effort to keep down costs.

Practically all of the people who are employed part time in retail stores are people who would not be available for full-time work. These include schoolboys and schoolgirls, married women, who wish or need to supplement the household income,and

others who for family or personal reasons find it impossible to devote a full work-week to business.

From the merchant's point of view this often enables a store to keep in operation beyond the normal work week of the full-time employee. Many of the part-time employees have been in fact full-time employees in the past. This applies generally to women who left the employ of the company on getting married and who in later years found it feasible and desirable to work.

The retail business in general and the chain food store have afforded opportunities to boys and young men to advance in the business world. There are very few men in Canada who did not at one time or another work in a retail establishment. This early business experience, often as Saturday boys in Loblaw stores, including training and discipline, has been the foundation for many a successful career. Nearly all the chief operating officers and executives of the Loblaw Company have had no other employer. This is true also of the chain branch managers, meat managers, grocery managers and produce managers.

Many men who have gone into other careers and professions were employed in retail establishments part time out of school hours and in summer vacations. Many of these people can be found who would willingly testify to the value of this early experience.

The development of the chain food store has increased very substantially the amount of advertising appearing in the daily and weekly newspapers. Prior to the advent of the chain food store food advertising

was rare. It was intermittent and probably in no great volume. The Loblaw Company today advertises in every centre in which it operates. And the consumer, usually the housewife, is able to learn not only the prices but the kinds of products being offered seasonally. (See supplement.)

In connection with advertising it may be mentioned that the growth of the Loblaw chain has never put price first. Prices compare favourably, and must compare favourably, with prices of competitors but the first emphasis is on quality.

The well conducted chain food store also is invariably concerned with cleanliness. In at least one other brief coming before your Commission there was emphasis on not only the cleanliness of the stores but the cleanliness of the goods packed and prepared under modern conditions.

In the field of packaging of farm products, it is suggested that while the packaging is somewhat costly, the additional appeal of clean and attractive packaging enhances sales. Spinach, for instance, is so thoroughly cleaned nowadays that younger people may not remember when sand and grit were frequently cooked with the spinach. Celery, carrots, onions and lettuce are all homegrown items attractively packaged and thus find readier markets.

In the earlier days of the chain food store there was a considerable amount of pre-packaging done right in the store. Girls were employed in non-rush hours putting up sugar in two-pound and larger packages

and wrapping in brown paper or bags other commodities such as oatmeal ready for the customer.

This custom has all but disappeared. The question that is probably concerning this Royal Commission is whether or not the newer style of packaging, including cartons and coloured labels, is more costly to the consumer than the old system. The Loblaw Company is of the opinion that the old system, having regard to today's wage costs, would be more costly than the present system in spite of the apparent expense of cartons with lithographed announcements and labels. Virtually all packaging nowadays is done by machinery as a part of processing and manufacture.

Almost from the beginning of its existence the Loblaw Company has dealt directly with growers of many kinds of products produced on the farm. There are today more than 4,000 regular shippers of eggs to the company's warehouses.

The company endeavours to assist the grower in marketing products which might not otherwise reach the consumer. An instance of almost annual occurrence is in the production of Grade A eggs "Small". These are put on the market as top-quality eggs but their size precludes their obtaining the higest price. In 1958 many hundreds of housewives obtained two dozen Grade A "Small" eggs at about the price of one dozen Grade A "Large". Getting these small eggs off the market as quickly as possible was beneficial to the egg market as a whole and gave the producer an immediate return on a type of egg difficult to sell.

Attention is directed to copy of letter to egg producers and also to the fact that a very recent production of the Department of Poultry Husbandry (O.A.C., Guelph) entitled "Your Contribution to Egg Quality" is being distributed by the company to 2,000 producers.

This memorandum has emphasized the effort through the years to reduce the cost of doing business. This is not to be considered as meaning that a reduction in cost did not benefit the consumer. The striving toward lower costs may have as its underlying impelling motive a human desire to increase profit, but inevitably and invariably a reduction in costs enables the retailer more successfully to compete. There is no copyright on methods of cost reduction and probably a secret in that department of business is not kept for more than a day or a week. The competing merchant must get his costs low also or he will have to sell at a loss. Long-continued selling at a loss is impossible.

It should not be forgotten that the tax structure of the Dominion Government is a large factor in the price spread between farmer and consumer.

Every successful business at present is subject to a federal corporation tax of 47 per cent, plus in Ontario a provincial corporation tax of 7 per cent or a combined rate of 49 per cent.

There are, of course, all sorts of other taxes that bear directly on the price of the goods. The federal manufacturers' sales tax applies to some processed food items, although raw food is exempt from such tax. Exact calculation of the amount of the sales tax affecting foods is not easy to arrive at because these taxes are in the price charged by the manufacturers. The federal sales tax was increased from 8 per cent to 10 per cent in 1951, the extra 2 per cent going to the old age pension fund.

The Loblaw Company through the years has endeavoured to get and keep the best of relationships with its suppliers, particularly suppliers of perishable goods. The Loblaw Company has for many years maintained a system of collection of eggs for instance which assures not only freshness but highest quality of high standard. The same is true of growers of vegetables and fresh fruits.

Freshness is one of the most important factors in the handling of farm and dairy products. Butter is an item that is code-dated and any that is not sold after a certain time in the retail stores is returned to the warehouse for disposal.

The matter was dealt with in another brief, but it should be emphasized that a great advantage to the producer is the quick and efficient handling of

Ontario farm products. The most recent notable example of this, to the advantage of the producer, was in the 1958 crop of Niagara peaches. These came on the market in great volume. And the chains were the principal agencies through which this fine Ontario product reached the consumer at very small mark-up over the price paid the producer. (See supplementary comment).

This memorandum is based on the experience of the Loblaw Company over its 37 years of existence. The success of the company is due to the solid foundations established a generation ago. But there is no claim that the Loblaw Company has a monopoly of sound merchandising methods. Generally speaking, the retail food industry, whether it is a chain store, a voluntary chain or an individual store, is well operated. If it were not so, neither chains nor voluntary chains nor individuals would have survived.

THE CHAIRMAN: Thank you very much.

COMMISSIONER DRUMMOND: Mr. Meech, you stressed, among other things, that there has been in very recent years such a thing as the transference of functions from the old time wholesaler to the retailers such as yourselves and, perhaps to a lesser extent, transfer of processing functions. Was this transfer of functions fairly well completed 10 years ago, or has it become more complete in very recent years?

MR. MEECH: I would think it had been completed pretty well before 10 years ago. It is still in the process of completing now.

COMMISSIONER DRUMMOND: I was thinking of

this: When you speak about your retail margin, my interpretation of that is that that is the margin that you require for doing all the things that you do?

MR. MEECH: Yes.

COMMISSIONER DRUMMOND: Which includes wholesaling and processing. The extent of wholesaling and processing functions you have performed in recent years may be an important factor in accounting for the increase in your earnings, but if that transfer was completed earlier, that would not be the case.

MR. MEECH: The offsetting factor there would be the packaging. The packaging now is done outside of our firm and that eliminates a lot of the cost of our operations.

COMMISSIONER DRUMMOND: Speaking of packaging I was very interested in your observation in the first paragraph on page 10 where you express the opinion that, all things considered, the expense of packaging and packages today perhaps is not any greater but as great as the corresponding expenses under the old system. Would you like to amplify that statement in any way?

MR. DAVIDSON: With respect to packaging, there is packaging which we do ourselves within our own plants. We are taking the bulk commodities, which formerly would be done in the stores, and which used to be done during the slacker hours during the early part of the week, and it was found by the use of machinery that these packaged products can be controlled and packaged better and cheaper, despite the fact you may prepare a more elaborate package than

before, and that it can be done better in the wholesale. Some examples would be cheese packaging, which Mr. Miller would maybe like to speak about.

MR. MILLER: In connection with cheese packaging, we formerly did it at the store level. We would send a 90 pound hub of cheese out to the store to be cut to the various sizes to suit the customers. In 1950 we centralized that operation for quality control and what we felt would lower labour costs at our own warehouse. We wrap and price and package -- do the complete job at the warehouse for the stores. In other words, the cheese going into our stores today is similar to a can of peas; it is all ready for our store people to put on display for the customers. We use the most inexpensive type of packaging that is possible, which is moisture proof cellophane, and we are able to do that, I suggest, because of the fact that we have complete control from the time of cutting to the time of purchasing by the consumer. It is conceivable, to cut a cheese today that it goes out on our trucks tonight, and the consumer can pick it up tomorrow afternoon in the stores; whereas, the wholesaler or larger distributor has to cut ahead for the retailers' orders to come in from his salesmen out on the road, and they have to hold it for a week before it is shipped out of his warehouse. Then it goes out to the store, and it would be, again, maybe a day or two days in the store. All of that difference in time requires more expensive packaging, and the most expensive one is Kryvac, and Kryvac envelopes for 8 to

10 ounces of cheese run in the neighbourhood of 5 to 7 cents apiece. When you start talking about 8 ounces of cheese, why, you have got 10 to 12 cents per pound, whereas in our case, with cellophane, it is much cheaper. That does explain the difference you see prevailing in cheese known or brand versus cheese of our own.

COMMISSIONER DRUMMOND: To what extent do you think these two things, this speeding up you have just referred to, together with the improved type of packaging itself, to what extent do those things result in a reduction of waste? Is that significant?

MR. MILLER: I think it is very definitely significant, but there is just no yardstick that you can apply to that waste factor. We are just positively certain in our own minds that we save many, many dollars just on that one point, because cheese, as you know, is inclined to mould, naturally, once it has been exposed too long to the air, and so on, and it results in trimming and such like, and it is very difficult to keep control of trimming at store level on things of that nature. When we centralized the operation into our own warehouse, we knew exactly what our waste was and is.

COMMISSIONER DRUMMOND: Speaking of cheese, there are one or two other points which may be worth mentioning here: It is generally known that recent years have witnessed a very pronounced step-up in the per capita consumption of cheese in this country: How would you list the factors that have really attributed

to this increase?

MR. MILLER: Number one, without any hesitation on my part, because I feel so confident and certain of it, is the improved packaging; the very point we have just been discussing. I am not saying we should take full credit; please do not misunderstand me. However, I do think we have contributed greatly towards it because we were somewhat in the pioneer class of centralizing that operation. Undoubtedly, the availability of the product in a size suitable for consumer acceptance, all ready at retail level, without having to cut the cheese from under a glass with a knife and so on, has, I suggest, spurred the retailer to carry more lines of cheese, a bigger variety, and of course we cannot take away from the very great improvement that has been made in refrigerated counters -- dairy cases, as we call them -- which have added an awful lot to the life of the cheese to assist in the elimination of waste and mould, and retaining its attractiveness to the consumer.

COMMISSIONER DRUMMOND: Would it be fair to say cheese is one commodity which chain stores such as yourselves have seen fit to spend considerably on in respect of general promotional programmes?

MR. MILLER: To spend considerable on?

COMMISSIONER DRUMMOND: Well, perhaps above the average for all commodities in stores?

MR. MILLER: Well, I can't speak of other chains too well, but I can certainly speak of ours, and we take a terrific pride in our cheese business --

that is, from all angles: from procurement to curing, storage warehouses in which we cure the cheese, which we inspect and go to considerable trouble over and beyond the normal operation of curing and retailing cheese; and we are very proud of it.

COMMISSIONER DRUMMOND: The reason I mention this point at all is the fact that the Commission has heard at several points viewpoints to the effect that consumers regarded the price of the spread in respect of cheese as definitely quite high, and particularly so when compared to the spread, let us say, on butter and other dairy products?

MR. MILLER: Yes.

COMMISSIONER DRUMMOND: And I am trying to figure out the explanation.

MR. MILLER: Well, if I may, I will give you my version of that. I have been in this dairy industry all my life, and, unfortunately when people speak of the spread on cheese, they sort of run it down into the proverbial rat hole, and we find out the spread they are speaking of is usually connected with the old cheese price, and the price for old cheese is always higher, and it always should be, based on the fact all of these cheeses, whether mild, medium or old, at the point of retailing are bought, as we call it, green from the Cheese Board. We purchase it at that time, and cure it according to "mild, medium or old". Well, different wholesalers and retailers have different versions of mild, medium and old, and one that no one can get around is that you have to hold your cheese

in Canada for sixty days after manufacture. Some people will not sell mild cheese under 90 days of age; that happens to be ours. Some people think it can be a medium cheese when it is only six months old; others prefer nine to twelve months. On old cheese some people think that 10 to 12 months is old enough. They have a different form of cure; they may have a forced cure, or a slightly higher temperature to develop the flavour a little faster. However, other people consider old cheese as a year to a year and a half, and I would suggest that possibly 10 to 15 years ago there was a lot of cheese held until it was two years old. That day, I think, is almost gone; it is a very small percentage of the cheese which is held now beyond a year and a half, in my opinion. All of that aging increases your investment over the period of time -- increased storage charges and increased shrink, and subsequently the longer you hold the cheese the wider that spread must be.

COMMISSIONER DRUMMOND: Yes, the cost of curing and holding?

MR. MILLER: Yes and, again, the packaging.

COMMISSIONER DRUMMOND: But I was going on to add this: You just emphasized this fact that there is this tremendous variation in consumer taste for different ages of cheese.

MR. MILLER: Yes.

COMMISSIONER DRUMMOND: Does the variation in the taste of cheese differ altogether from the variation in the taste for butter and many other things?

MR. MILLER: Yes, particularly.

COMMISSIONER DRUMMOND: And it is your argument that this greater degree of variation in taste is the major factor?

MR. MILLER: That is right. In fact, our federal government have been for some years endeavouring to standardize cheese selling so that we could have it on the basis of butter, known as Canada First Grade and Canada Second Grade, but due to the very fact that we speak of -- the difference in taste -- we cannot come up with the right answer as to which cheese suits you -- first grade in the old flavour or in the medium. Everybody's taste is somewhat different.

COMMISSIONER DRUMMOND: If I may transfer my attention from cheese to red beef, you will recall this morning the Chairman asked the witness in respect of possible changes that had taken place in recent years in cutting up practices, particularly in respect of beef: You get your beef from your suppliers in carcass form, and you have to do the cutting after you get it, and it has been suggested that there have been very significant changes in the cutting up practices in recent years due, to some extent, to the changes which chain stores have made in their packaging and pre-packaging of meats, and I would like to ask here whether your firm has been in the habit of making these cutting up tests during that particular period from time to time?

MR. AGNEW: Yes, we have made a lot of changes. For a rib roast of beef we used to sell

an 11 or 12-inch rib, and today we cut them just below the eye, as we say, or 5 or 6 inches. We convert that piece we cut off today into braising ribs, naturally at a lower price. So, there is quite a spread on the standard today compared to the old price. There are other cuts of meat such as hips of beef where we take all the bone out, and although we do a little cutting by hand, it is all done on saws today. There are several cuts we have changed, even since the Wartime Prices.

COMMISSIONER DRUMMOND: What would be the general effect of these changes?

MR. AGNEW: Well, it is pretty hard to discuss. We have breakdowns on a percentage of ribs of beef compared with what it was previously -- what we called a rib of beef previously; that is something we can do. Naturally, if we trim the flanks of a porterhouse steak, we cut them shorter today than we did before, and that meat has to be converted into hamburger or merchandised in some other way.

COMMISSIONER DRUMMOND: The spread is for the higher cut.

MR. AGNEW: Yes. You always hear about porter-house versus the live cattle. You will always get that percentage. You never hear about the bones or stewing beef or anything like that.

COMMISSIONER DRUMMOND: Do these changes result in you being able to sell any less of the whole carcass as meat?

MR. AGNEW: No, we have to merchandise the whole carcass which is like as if say in Toronto we have to buy extra hind quarters of beef in Toronto. We have an awful lot of thick steak business today. People like thick steaks so we give it to them. These cattle today haven't enough hind quarters.

We have chickens with three legs today, and we have to throw that extra leg in there. We can't do that with beef.

COMMISSIONER DRUMMOND: What you do not sell as a sirloin you do sell at some point?

MR. AGNEW: Yes. We have one district where we get more for sirloin than we do for porter-house. That happens to be Ottawa here. The people all here like sirloin steaks.

COMMISSIONER DRUMMOND: What percentage roughly would you say of your average beef carcass is sold as edible meat?

MR. AGNEW: With bones out and waste off, we would consider 12 to as high as 15 per cent. A few years ago it was a lot lower because we sell

more bone today.

It is like a carcass of beef. It has got to have quality to carry that brand. There are a lot of times we have to take that stamp right off in order to give the customer the best or meat she will buy because it is quite often we have to cut the brand off. That happens quite a bit.

COMMISSIONER DRUMMOND: Can you supply the Commission with data showing the results of your new experiment?

MR. AGNEW: All that you would get is the percentage of ribs versus what they were years ago.

COMMISSIONER DRUMMOND: That is it, to see how the situation was at the start, taking the start of our period 1949 comparing it with the situation at present.

MR. AGNEW: The only difference would be based on the percentage of the different cuts of meat.

COMMISSIONER DRUMMOND: That is right.

MR. AGNEW: We will get that for you.

COMMISSIONER DRUMMOND: You can do that?

MR. AGNEW: Yes.

COMMISSIONER WALTON: Has your organization had wholesale storage of carcasses or does each store buy direct from the packers?

MR. AGNEW: We buy direct or it comes direct from the wholesalers. We have buyers that go out to every packing house all over in Toronto and so on. In Ottawa we have a supervisor, and they buy here.

COMMISSIONER WALTON: Buys for each store?

MR. AGNEW: Yes.

COMMISSIONER DRUMMOND: In that connection, in respect to your general procurement of supplies, just what all requirements do you make of your suppliers normally; price specification, I presume. What other specification?

MR. AGNEW: In cutting?

COMMISSIONER DRUMMOND: No, I am thinking of commodities in general.

MR. MEECH: I do not quite understand the question, Dr. Drummond.

COMMISSIONER DRUMMOND: What I am driving at is this: As a buyer of food products, what I want to get at is what you specified to your potential suppliers that you want? Do you tend to say we want so much of a certain type at a certain price, or do you leave it for them to come to you and do the bargaining?

MR. MEECH: No. We arehighly selective in our purchases. We insist on getting what we want. We know what our customers will buy, and they have to conform to our demands and they are pretty well anxious to fill that demand. We haven't any trouble on that score.

It is just like Mr. Agnew saying about these hind quarters of beef. We had to create that demand and create the supply to meet the demand through packers.

COMMISSIONER DRUMMOND: Do you get a thing like meat from various sizes of packers or from a large

number of packers?

MR. AGNEW: We cover every province and out West as well to get meat and in the East.

MR. MEECH: We have found, in that connection, Dr. Drummond, it is very profitable to be able to help out the small packers, the individuals who establish a plant and standards of what we want and they do compete with the larger packers in supplying us our wants.

It is a most advantageous operation for us to have this diversity of suppliers and these competitive suppliers. We could not afford to have our business pretty well monopolized by any one or more of the larger packers. We found that in the past.

COMMISSIONER DRUMMOND: Is it any advantage to you to be able to obtain a commodity like meat directly? I am thinking from a packer who is reasonably adjacent to your stores rather than bring it considerable distances.

MR. MEECH: In that connection, with distances and retail quality and so on, it is surprising how those methods change. Mrs. Walton mentioned "Did we buy direct or did we harbour carcasses in our own coolers". We used to buy and store the carcasses in our coolers and age them, but through competition we found that the shrinkage was too excessive to absorb and we had to go to the packers.

The packers for a while would allow a certain measure of aging but they too became alert to the importance of quick deliveries and the shrinkage was

so great that our buyers, such as Mr. Agnew would go to the packers and they would say there it is, and then they would carry them. We could carry them as many days as we liked, but if it were carcasses that the packers were supplying they would put their shrouds on to prevent shrinkage and we would have to name the day that we would take our delivery. It has changed to that extent.

COMMISSIONER DRUMMOND: I think you indicate in your brief somewhere you do buy certain commodities directly right from the farmer producer?

MR. MEECH: Yes. Mr. Rainey is our produce operator.

MR. RAINEY: We buy most of our local produce, our vegetables and our fruits directly from the grower or from the shipper in some instances where the grower would be supplying him with the merchandise to pre-package; where the grower ordinarily would not have the facilities himself.

We would buy most -- I would say 95 per cent of our supplies directly from the grower in that case.

COMMISSIONER DRUMMOND: Has this direct purchasing from the grower been increasing recently?

MR. RAINEY: No. We have been doing that. We have maintained that policy for a long period of time. We have always encourage the growers to come direct to our warehouses where we can handle usually whatever they can produce. We have had many growers that have pretty well started with the inception of the company and are still with us.

COMMISSIONER DRUMMOND: Has this reduced the percentage of your supplies that you would otherwise have had to get from places like terminal markets?

MR. RAINEY: Well, we would buy -- it would reduce it. We do buy a small percentage from the terminal markets, but mainly it is direct from the growers because we feel it is more beneficial to the growers to bring his merchandise direct to our warehouses than it is for him to sell it through the terminal markets, because the merchandise is so highly perishable and if it is taken to the terminal it is quite conceivable that probably 10 to 20 per cent of that merchandise may be dumped due to the fact there are no sales.

As we explained to the grower, once he delivers to our warehouses, 100 per cent of his produce is sold. Once it comes over our docks his responsibility is over.

COMMISSIONER DRUMMOND: We have heard a great deal recently about this thing called vertical integration, integration of marketing functions of one kind or another. You have done apparently a very considerable amount in the way of integrating your operations. In these cases you go right back to the producer and then you do certain processing, and do most of your wholesaling if not all, as well as the retailing. Would you experience indicate that this integrating has resulted in a narrowing of your margin?

MR. MEECH: Are you referring to produce, sir?

COMMISSIONER DRUMMOND: I am referring to any commodity or commodities you wish to take.

MR. HUFFMAN: Dr. Drummond, when you ask that question, are you referring particularly to growers?

COMMISSIONER DRUMMOND: It probably applies more completely to produce because that is the case where you really go back to the producer.

MR. HUFFMAN: Yes.

COMMISSIONER DRUMMOND: A development such as this integration as with all developments does not take place without good reason, and there are reasons for this being done, and the thing is bound to have some effects economically as well as otherwise. I suppose what I would like to know is why you believe in pushing this integration idea further, and why you pushed it as far as you have, and what your experience has been in as far as actual sales, perhaps elimination of risk and perhaps greater quantity of supplies, or whatever it may be?

MR. HUFFMAN: Well, some may completely understand that word "integration" in this particular circumstance. I am really not too clear on it. If you could just clear that up for me.

MR. MEECH: I believe what Dr. Drummond is asking is this: This trend in the food chain buying direct from the primary producer following these various changes until it ultimately reaches the shelf in the store, has that resulted in affecting our margins in any way? Has it lowered the margins? I think the general answer would that while we would do it, and

do it in every circumstance, because we can control the source of supply we can label it as a brand of our own and keep the product right through the moment of its primary form right through; take the product and not having to assess anyone else's costs in the preparation or touching that product, and I think that it would narrow the margin that would ultimately result in the consumer price.

COMMISSIONER DRUMMOND: Possibly what you are really saying is you replace uncertainty with greater certainty all the way along?

MR. MEECH: That is right.

MR. MILLER: If I may, Mr. Chairman, the vertical integration subject is being discussed very, very widely in the poultry industry of which eggs are a great part. I hear tales, due to my association with various groups of which I am a member, of producers who are actually purchasing eggs for a stated number of cents per thousand. That is to say, they do not buy the chicks, they do not buy the seed, and so on. It is carried by the hatchery; then the feed company, and they in turn go to a company such as ours and obtain a market for the eggs and they pay that producer -- the figure has even been mentioned -- a figure of 8 cents per dozen. This has been popular and is gaining popularity in the United States in the last three or four years with questionable success to all parties.

COMMISSIONER DRUMMOND: There is only one other question I would like to ask: there are, of course, two forms or two ways in which this integrated process can take place, one is by doing as you suggested, having a series of interrelated contracts between parties but having the decision of process more or less in the centre at the initiating point. The other plan is to have whoever starts the ball rolling take over ownership at all levels.

MR. MILLER: Well, in our case, particularly in regard to eggs, there is no thought in that regard and there never has been.

COMMISSIONER DRUMMOND: That is what I want to get.

MR. MILLER: Loblaws obtain eggs direct from

the producers in the country for two reasons, I suggest. First is freshness and quality, and second is continuity of supply, and that is actually our policy today.

COMMISSIONER DRUMMOND: You are not interested in going into the farm business?

MR. MILLER: Oh, no.

COMMISSIONER DRUMMOND: That is all.

COMMISSIONER KIDD: In your submission, Mr. Meech, you go into the matter of cost factors extensively. Now, on the first page in your summary of submissions you list factors tending to raise costs, a number of items there. Could you add to that another item, namely profits?

THE CHAIRMAN: It is at page 2.

COMMISSIONER KIDD: Summary of submissions.

MR. MEECH: Yes, I would think that certainly could be a factor.

COMMISSIONER KIDD: On page 7 you state that labour costs ---

COMMISSIONER COUVRETTE: Could I interrupt for a moment? In order to get that into position on the cost stairway, on page 2 is that operation cost or consumer cost?

MR. MEECH: I think I must have misunderstood you, Mr. Kidd. Were you asking is profit a factor of cost?

COMMISSIONER KIDD: You list your factors tending to raise cost, a number of items. You mention wages and so forth, and the question is, could you add

to that the item of profits also?

MR. MEECH: No, not cost. No, we could not add profit as a cost factor.

COMMISSIONER KIDD: You would not say that this would be a factor that would tend to raise the prices to the consumer?

MR. MEECH: Oh, no, it could not be a cost.

COMMISSIONER KIDD: Profit could not be a cost item to the consumer?

MR. MEECH: To the consumer?

COMMISSIONER KIDD: Well, on page 7 you point out that a previous inquiry, wage costs were two cents per sales dollar and then wage costs now you say have gone to seven or eight cents on the sales dollar. I take it that you are referring to the inquiry of the 1930's; is that correct?

MR. MEECH: Yes.

COMMISSIONER KIDD: Would you say that was a period of over-supply of labour?

MR. MEECH: Yes, I would say during the depression there would be an over-supply of labour.

COMMISIONER KIDD: So that it might not be too sound a comparison for the purposes of our discussion today ---

MR. MEECH: It would be a special case.

COMMISSIONER KIDD: A special case?

MR. MEECH: Yes.

COMMISSIONER KIDD: You say that these factors tend to raise costs and included is the doubling of wages, and later on you say 111 per cent increase.

Have you got the figure available of the increase in profits in the same period of time, either net or gross profits?

MR. MEECH: I think these were matters which were in the questionnaire and we prefer to have it left in the questionnaire.

COMMISSIONER KIDD: I realize that. The only reason I am bringing it up is because you have made quite a point of these increasing costs as factors tending to increase the spread, so I was trying to get at a comparison of the wages which you obviously believe are a very important factor in the item of profits. As I say, I realize it is in the questionnaire, but I wondered if you could give us something on it due to the fact you have made this particular statement.

THE CHAIRMAN: I do not think Mr. Kidd is asking for actual amounts. You take wages and see wages doubled, taxes trebled, or whatever it is, and all those things,and the only item that comes within the price paid which you have not indicated in this way is profits. Now, the question simply is, if wages have doubled are profits up 60 per cent or 75 per cent, or what is it?

MR. MEECH: They have increased.

THE CHAIRMAN: You have not the percentage here?

MR. MEECH: No, I have not the percentage.

THE CHAIRMAN: I thought you might slip it in as a factor tending to reduce costs.

COMMISSIONER KIDD: Of the number of people who are employed part-time, what percentage of the total payroll would be employed part-time?

MR. DAVIDSON: It is a difficult figure to give percentage-wise. It would be very misleading, the reason for that being as follows: we have some individuals who want to work only one day out of perhaps two evenings that our stores are usually open, Thursday and Friday. We also employ part-time help on Saturday and those are the three busiest days of the week. If you try to give it as a percentage of your total employees it would be a deceiving figure, depending on any particular store, because we do have some employees who are anxious and willing to work Thursday night -- possibly Friday night and Saturday. Today we have part-time employees, of course, doing a vast majority of our business on Thursday, Friday and Saturday, particularly on Thursday and Friday evenings, and our labour contracts require that our full-time employees can only work on one of those two nights. We have to bring in during the peaks at least enough part-time employees to be able to handle the amount of business with one-half of our full-time staff present during those evening hours. In order to give you the percentage you want would require the breaking down of the entire question, but we would be glad to supply you with whatever you need and if we knew what you wanted we would take time to prepare it for you.

COMMISSIONER KIDD: I just wondered if you

had readily available an estimate ---

MR. DAVIDSON: It is changing from week to week. I know from my own knowledge of the store where I live youngsters have come and asked me to assist them in getting work. Some of these youngsters want to work one or two or three days, sometimes they work for two or three weeks and they decide they can do without any work and they spend their pocket money and do not come back for two or three weeks. It is a very difficult question to answer in the way you put it.

COMMISSIONER KIDD: You have given us a figure of two cents in the 1930's and seven cents now. What were the labour costs in 1948 and 1949?

MR. DAVIDSON: I do not have that figure. Again it would possibly be something that was asked on the questionnaire, was it?

COMMISSIONER KIDD: I was trying to get some answers here for some of the things that have been ---

MR. DAVIDSON: Well, in 1948 and 1949?

COMMISSIONER KIDD: Let us take 1948?

MR. DAVIDSON: Could I answer you this way -- and I can speak with full knowledge with respect to warehouses and transportation to stores where our cost figures are supplied to our counting office combined. Those costs are combined and we naturally -- I have seen where questions with respect to productivity would certainly enter into the cost factor and have to be kept in mind. We have noted that

increases in productivity have gone along as increases in income and have been passed along to the employees and we have always been pleased to know that. However, out of the particular department you are able to establish what your overall cost is, and in the case of warehousing and distribution if you take the '48 figure as a base of 100, the cost per ton in 1958 is 166. Does that answer your question?

COMMISSIONER KIDD: In your labour costs, that is salaries and wages?

MR. DAVIDSON: It is the overall cost. For instance, in warehousing and transportation, labour forms a big part of it but it is not entirely that.

COMMISSIONER KIDD: Labour includes salaries and wages. You say wages have doubled. What happened to salaries?

MR. MEECH: We regret to say they have not been so fortunate.

COMMISSIONER KIDD: You have not got that figure?

MR. MEECH: No, but I would say they would be about a 20 per cent increase.

COMMISSIONER KIDD: What is the proportion of salary to hourly wage employees?

MR. DAVIDSON: It is a figure we did not anticipate being asking to give, but we can assure you by comparison it is small.

COMMISSIONER KIDD: I am mentioning all these questions because of the emphasis on cost.

MR. MEECH: If you want to ask them and feel

they are important we will undertake to supply them to you. Now may I have the specific question; what would you like?

COMMISSIONER KIDD: Well, there are two questions: what was the change in salaries in the same period of time and what is the ratio of salaried employees to hourly-wage employees?

MR. MEECH: Yes, we will furnish that.

COMMISSIONER COUVRETTE: Well, just as a matter of clarification, that word "costs" that you put on page 2, do you mean by it your cost of operation or the cost to consumers? In other words, your selling price at retail level?

MR. DAVIDSON: We refer to both because one is tied up with the other. If, for instance, you deal specifically with the cost of labour in the cost of transportation, we pay transportation and labour costs in both places; we pay transportation ---

COMMISSIONER COUVRETTE: The only difference is that in one case you have to include profits and in the other case you would not have to; is that not right?

MR. DAVIDSON: Well, only partly, with respect. Obviously, if in the cost of merchandise you are buying you pay transportation, it tends to raise the price of what you are buying and if in addition to that you have the cost of distributing that to the store it has to increase the cost of the product as it is delivered to the store.

COMMISSIONER COUVRETTE: Yes. I may be off the beam, but when you sell at a retail price to

the consumer, the price you get is based on your cost of operation and you earn a profit?

MR. DAVIDSON: Yes.

COMMISSIONER COUVRETTE: Well, your cost of operation, that is what you receive from your selling price less your profit?

MR. MEECH: We do not take cost in as a profit factor. We take up all our costs and then the sale price goes on and that sale price is a very indeterminate price. It is measured by so many factors. I asked Mr. Clarke and he did not know all the factors that the price people wanted to pay for goods and merchants would sell them at. He was asked that question: "How are prices fixed?" and he said he did not know. He took all his cost into consideration and then he tried to sell it at a reasonable price and found his neighbour next door had another reasonable price and he had to bring that down and the end result was that he ended up with a competitive price. There is no arbitrary fixation of a profit.

THE CHAIRMAN: We don't want to get into a verbal argument here: You used the word "costs". Let me try and eliminate it and see if I can state what I believe you have set out this sheet for. You are saying that over a recent period there are certain factors which come into the final price, which have changed the increase, and you say railroad transportation rates have gone up, and they may be rates which you have to pay in products that you buy, and those, generally speaking, will go into the price of things: Freight rates have gone up, and taxes have gone up and wages have gone up -- and Mr. Kidd says profits have gone up. However, these are all things which have risen during this period and are factors tending to raise the price to consumers?

MR. MEECH: Yes.

THE CHAIRMAN: On the other hand, there are things like labour-saving devices which have changed in the opposite direction?

MR. MEECH: Yes.

THE CHAIRMAN: We don't have to use the word "cost" here.

MR. MEECH: Yes.

COMMISSIONER DRUMMOND: I think you also feel that in order to stay in business for any significant length of time you would have to include this thing you call profit as part of your operating cost?

MR. MEECH: I think that is a technical way of --

THE CHAIRMAN: I don't think Mrs. Walton will

lead us into this type of conversation.

COMMISSIONER WALTON: Mr. Miller, in your supplementary information which you have here, I was reading about cheese, and I was wondering what happens, at Section C. Out of curiosity I want to know -- the federal government does subsidize to the 34-cent level, and you say, "Recently the Ontario Cheese Producers association obtained a Cheese Buying License and are now operating in competition with the trade on paying a price of 35 cents a pound at Board level, resulting in the trade having to pay equal to or slightly more. This one-cent a pound additional appears unnecessary...": What do they do with the cheese they buy and pay one cent more for? To me, that must be increasing the spread on the cost to the consumer, when normally you should obtain it at 34 cents. What do they do with the cheese they buy?

MR. MILLER: It so happens, Mrs. Walton, you have got the exact picture on that, because you are confused with it as we are in the cheese industry. The Ontario Cheese Producers association right now, on Thursday afternoon, is buying cheese at Kingston, and they place a bid on that Dutch clock auction system used there for 35 cents. Automatically, the clock will stop at 35 cents if that cheese is not picked up at some fraction above that. In other words, if I wanted that particular cheese I would bid, let us say, 35-1/4, just for argument's sake, to be certain I got the cheese -- or 35-1/8th.

COMMISSIONER WALTON: Well, if they are left

holding the bag --

MR. MILLER: Now, if they have the cheese I don't accept it, and no one else does, and it goes to the association and they turn it over to the federal government at 34 cents. This is a new innovation this year.

COMMISSIONER WALTON: Then the producer does not benefit by that one cent?

MR. MILLER: No, he doesn't. We can't buy it at less than 35 cents -- anybody in the trade.

COMMISSIONER WALTON: It just seems odd.

MR. MILLER: It is, very; you are quite clear on that in that you are confused.

THE CHAIRMAN: We have another submission this afternoon, but I shall just point to the chart here which you have included in the material at the back of your brief, and ask if you have any comment on that.

MR. MEECH: Well, we are aware of the problem and we hope you will find ways and means of suggesting to the industry how it can co-operate to lessen it. We, ourselves, have asked ourselves the question "How can it be done, and could we come before you and offer any quick remedy?", and we haven't any quick remedy to answer that problem.

THE CHAIRMAN: That is a very honest answer. We are in much the same position ourselves at the moment.

Thank you very much, gentlemen; we appreciate this, and it has been a very interesting discussion.

--- A short recess.

Submission of

GENERAL FOODS LIMITED

Appearances:

Mr. L.A. Miller	President
Mr. M.E. Alexander	Vice President
Mr. R.A. Willson	Director of Personnel and Long-Range Development

---

THE CHAIRMAN: We will now hear the submission from General Foods Limited. Mr. Miller, I am glad to have you here and Mr. Alexander and Mr. Willson with you. Would you like to proceed now with the brief?

MR. MILLER: Thank you.

Our company welcomes the opportunity of meeting with you this afternoon to present views which we believe may be pertinent to your inquiry. A brief has already been filed with Dr. Dawson, in reply to the Commission's questionnaire for the prepared breakfast foods industry. My comments today will be based, in part, on our activity in breakfast foods, but since this represents a small percentage of our national business in dollar volume, we will refer to other examples within our company's business experience to substantiate the points of view expressed.

It has been a source of some concern to us to perceive in earlier testimony before the Commission, occasional representation that the farmer, the processor,

and the wholesaler or retailer arein a kind of competition with each other for a share of the Canadian consumer's dollar. We do not see it this way. As a processor, we are a primary customer of the farmer and, in turn, a primary supplier to the wholesale and retail trade. In other words, there is a continuous interd ependent chain of processing and service which makes it possible for the farmer to supply the consumer with a product in the form she requires -- and when she requires it.

Without this life-line, as we might term it, from farmer to consumer, our steaks would remain standing in an Alberta pasture, our cheese in an Ontario milk pail, and our breakfast cereals on a Saskatchewan wheat field. We see the farmer or fisherman, food processors like ourselves, and the wholesaler-retailer to be integral parts of a general service process demanded by the consumer.

"Spread" in food prices, as we understand it, is the difference between what the farmer receives for his raw product and the price paid by the consumer at the grocery store. The difference is made up of the costs of research, manufacturing or processing, transportation and distribution, wholesaling and retailing, and of course, taxation on this whole process. If the cost of the processes which lie between the price paid to the farmer and the ultimate price to the consumer rises at a faster rate than the farmer's price, then this spread will obviously become wider.

The Canadian consumer is today spending more for her family's food than she did ten years ago. It is our belief that the reason that the farmer appears to be receiving a smaller share of increased expenditures for food is that the consumer wishes steadily more services added to the farmer's product before she purchases it from the grocery store's shelf. The demand for additional services results in:

(1) Additional convenience and time-saving for the individual consumer, as we shall expand on later, and it also results in --

(2) an increasing allocation, percentage-wise, of her food dollar for this built-in convenience, as compared with the price of the primary product.

It has been estimated that the per cent of disposable income spent for food has increased from a pre-war level of 22 per cent to about 27 per cent today. Yet the amount required to purchase the identical kinds of food over this same period of years has actually declined. If this be true, and we believe it is, then it follows that consumers are spending more to eat better. The fact that she is spending a greater percentage of her family's income for food purchases results in increasing income to all parties whose combined efforts furnish her food, and this can easily be lost sight of as we examine the "distribution" of her dollar.

A brief excerpt from the Report of the Royal Commission on Canada's Economic Prospects, taken

from page 151, bears directly on this point.

"But if agriculture is an industry, a business, it is an industry that differs in some important particulars from all others. Perhaps the most fundamental difference is that there is a relatively inelastic demand for its output. This can be called a fundamental difference because it arises from something immutable in human nature, from the fact that the lusts of the eye and of the other senses are more insatiable than physical appetite. There may be little limit to the amount of chrome a man may want on his automobile or to the frequency with which he can be persuaded to change it. There is a limit to the amount of food he can eat. He can hardly be stuffed with grain like a Strasbourg goose; and even if his tastes, as he grows wealthier, run to richer and more varied fare, the returns accrue more to the processor and the restaurant keeper than to the primary producer. So, after a certain level has been reached, the demand for foodstuffs rises much less rapidly than rising incomes, while the demand for many manufactured products follows the income curve upwards or moves ahead of it. Put in economic terms, that is to say that the income elasticity of demand for farm products

"as a group is relatively low. Closely related is the fact that the price elasticity of demand for many farm products is likewise relatively low. A drop of 10 per cent in the price of potatoes will result in little increase in consumption, while a similar drop in the price of television sets may clear out all the surplus stocks that dealers have on hand.'

Let me give you a specific example, taken from our own experience. We have been manufacturing several breakfast cereals at our Windsor, Ontario plant under the Post brand name since 1910. One of our oldest products was available in 1951 at a price which works out to about 1-1/2 cents per ounce. Today, essentially the same product costs about 1-3/4 cents per ounce -- an increase of only 1/4 cent per ounce.

However, we are manufacturing another wheat cereal product today which did not exist 10 years ago. Because it costs more to produce than the older product, and because it has added ingredients, the price works out to about 3 cents per ounce. The interesting point is that while the older product is still available to the consumer, she is purchasing nearly 2-1/2 times as many packages of the new product as she is of the older product. Here there is evidence of increasing spread -- not because the farmer is receiving less, but because the consumer

is choosing to spend her dollars on a product which costs more to convert from the raw ingredient than does the product which was her only choice 10 years ago.

An interesting point here is that the consumer is today buying both products. And the farmer is supplying the wheat for both products. It is our belief that the consumer is buying a greater volume of the two products together today than she would be buying of the older product if this were the only product available. Thus, while it may be shown that spread has widened, the innovation of this second product in our own cereal line has likely yielded income to both the farmer and ourselves, which neither of us would otherwise have received.

We would not suggest that this is the only explanation for the "spread" which the Commission has under review. We do wish, however, to state our company's perspective that "spread" is not of itself an undesirable phenomenon; that it can -- and should -- represent benefit to all participants in the chain of producing, processing and service, and that it may be dictated principally not by these participants -- but by the consumer herself.

It is our belief that spread will continue -- or may even increase -- for reasons not within the control of the farmer, the processor, or the merchant, but deriving from what must be recognized as a revolution in many of our social habits.

Changes which seem to have particular

significance for our industry are as follows:

(1) The average housewife is certainly not spending as many hours either in her home, or in the tasks of "keeping house" as she did 10 years ago. A tremendous increase in women's participation in community affairs, an equally significant growth in the numbers of married women working in business and the professions, a significant trend to spending more time in family travelling -- these influences have together created a demand for emancipation from traditional household tasks. Response by designers of homes, and more specifically their kitchens, by manufacturers of household appliances, zippers, paint rollers, and packaged foods, (to name a few),has been to build ever more time-saving convenience into their products. The now familiar "built-in maid service" has begun to be of prime interest to the householder-consumer.

Our home economists recently reported that the average Canadian housewife in 1958 spends about 90 minutes daily preparing the usual 3 meals for her family. Fifty years ago, she spent several hours accomplishing the same task. The food processor today does much of the preparation which she then did personally.

(2) If there is more haste in food preparation in the home, there is also a recently developing national preoccupation with more balanced diet and informed concern with the effect of nutrition on our health. Heavy, high-calorie foods are being rejected in favour of those which are lighter, less fattening, and more nutritious. And the average mother is compensating for her resignation from a full-time kitchen job by purchasing for her family, a steadily increasing variety of tastes, textures and colours in her food -- whether domestic or imported. Of our own company's sales volume currently, over 40 per cent is accounted for by products introduced during the last 10 years -- and all geared to the consumer's expressed desire for lighter, more nutritious foods, with built-in convenience.

(3) The supermarket is a phenomenon of the same revolution, and it is where Canadians now purchase some percentage (the exact percentage seems to be in dispute) of their groceries. The housewife who becomes fretful about being caught in a long line of customers at a check-out counter would find it difficult to believe that her mother waited at a counter while one sales clerk personally secured, weighed, packaged and priced every item in her shopping

basket -- by personal request! The only salesman she sees today is the appearance of the product itself on the store shelf or in display; and the only recommendation she has to guide her, unless she has already used the product, is the advertisied message about the product and its manufacturer--or the testimony of another user.

The tub of mincemeat, the case of tea, the cage for cheese, the sack of sugar -- these have all disappeared. In most cases, the foods of her choice are available in packages whose sizes have been carefully pre-determined to satisfy her normal use, without deterioration, whether stored on her own kitchen shelves or used in recipes which call for the exact quantity contained in each package. There are foods especially for babies, for elderly people, for those on special diets. And out of the vast choice available, only those foods which the consumer continues to purchase remain in competition on the store shelves.

These are but three irreversible influences in our society today which, in our judgment, a food processor must recognize. If there is added to

the primary food supplied by the farmer, the elements of (a) preparation for table use, (b) of processing into newly created forms and textures of the original ingredient, and (c) of scientifically

packaging the resulting food in sizes and with protection which result in less waste and deterioration in use -- and if the consumer continues to demand more of this built-in service, then as we observed earlier, it is likely that the spread will continue, and may even grow, as a part of our way of life.

So far as General Foods, Limited is concerned, we have responded to these influences within our company in several ways. The Commission may have interest in some of them:

(1) The products newly introduced within the past ten years are the result of an increasingly substantial investment in research which, in just the past five years, has increased five times over. At our Research Centre in Cobourg, Ontario, and with constant access to our parent company's Research Laboratories throughout the United States, we are devising ways of converting raw foods into more nutritious, more appetizing, and more convenient forms. For example, our soluble coffee, which saves the housewife preparation time and completely eliminates waste, was introduced in 1950, and today enjoys a sales volume across Canada which is roughly equivalent to our roasted coffee. During this same period, our roasted coffee sales have increased significantly.

Some members of the Commission may have

actually participated in yesterday's tedious process of washing, rinsing and cooking rice for a Sunday pudding. Today's packaged rice, prepared in the processor's plant, can be converted from package to plate in about five minutes.

A considerable capital investment has been required to produce this product -- not only in research, but in providing manufacturing and marketing facilities to make consumers aware of the product and to furnish it to them. Such investments must, of course, be paid for ultimately -- and this is no exception.

The consumer pays more per ounce, or per serving, for this product than for packaged raw rice. But she is buying more than rice. She is buying convenience, she is buying insurance against failure in preparation, she is buying variety from a menu planning point of view. These things have been done for her, and are reflected, of course, in the price she pays. Evidently, many Canadian consumers believe these added values are worth the extra cost because the usage of rice, both as a dessert and as a main course item, is continuing to increase. While rice does not happen to be a Canadian agricultural product, this is a fine example of the influences which may widen the

spread between what is paid the farmer and what is paid by the consumer simply by adding values after the raw rice leaves the farms where it is grown. The basic producer benefits because of increased consumer demand. The processor and the distribution channels benefit from added dollar volume and absorption of fixed charges, plus whatever increased profit accrues. The consumer benefits, as described previously -- and new jobs have been created for Canadian employees.

Instant puddings and pie fillings are further examples of new convenience products which result from a large investment of research time and money, offering new markets for primary producer and increased benefits to ultimate consumer.

But our research effort is invested not only in new products. We are additionally constantly examining various ways of further fortifying the nutritive value of existing products within the regulations of the Canadian Food and Drug Administration. The objective has been -- increased convenience, but not at the cost of nutrition.

FF
JC:iz
11/13

(2) We have attempted to meet the housewife's sharpened interest in the quality and nutritive value and balance of her family's diet in two major directions. A consumer Kitchen Department has been established, staffed by experienced Home Economists, and charged with constant testing of our various products in actual kitchen use. They are guided, of course, by their own initiative, but also by an increasingly large and constant correspondence coming from housewives in various parts of Canada, and seeking advice on recipes and meal planning. This has been a spur to our development of recipes which direct the use of products in company with other ingredients to yield maximum nutrition. From the Kitchens, too, has come the stimulus for placing precise quantities of products in packages to assist the housewife with her recipe formulation.

Our second major response has been sharply increased concern for the protection of the freshness and taste values of the product itself -- devoting considerable research to the development of package material which will most adequately protect the contents. First, the package must be designed to retain the flavour and texture of the food as it leaves the process; second, it must withstand the buffeting of shipping across Canada; then it must keep the product fresh on the store shelf

and in the consumer's kitchen until used. It is safe to say that the probability of the consumer receiving a stale or otherwise deteriorated food product has been drastically reduced in recent years. We subject our products and packaging material to constant tests of their ability to stand up satisfactorily in storage and in kitchen use; we pick up packages from store shelves constantly for product examination -- and, along with our competitors, we still get the occasional letter from a rightly indignant consumer asserting that her cereal was not crisp. It is clearly evident to us that Mrs. Canadian Housewife will not buy her breakfast cereal by the bushel.

(3) On today's supermarket shelf, the package itself must now act as the primary salesman of its contents to the consumer. Lacking the benefit of a personal introduction by a retail sales clerk, a product's outside appearance must be clearly distinguishable from its competitor. Its label, which is closely supervised by the Canadian Food and Drug Administration, not only describes the contents of the package -- but also carries a message about suggested uses and instructions for preparation. Additionally, it must be of a size and shape which can be handled, price-marked, and shelved by the

3

grocery store staff with maximum speed and convenience. It is small wonder that so much attention has been given to the whole question of packaging in recent years.

We referred earlier to the "life-line" of processing and service extending from the farmer and fisherman all the way to the consumer, which produces "spread", and we have examined some of the influences which we believe bear on this process. We have suggested, in effect, that "spread" may actually be the value of convenience and services added to the primary product. Obviously, the addition costs money. I should like to close our brief with an examination of these costs as seen by our company.

The cost of spread, we suggested, was made up of research, manufacturing, distribution, wholesaling and retailing. Reflected in the consumer price is obviously the cost of these operations plus the margin of profit deemed necessary by the individual company for survival. It is a matter of record that the food industry has operated on a smaller margin of net profit than Canadian industry generally, and this may well be a reflection of its relatively stable character. Our own company's net profits, measured in percentage of dollar sales, have been approximately 20 per cent lower over the past ten years than the similarly measured level of net profits recorded by the Canadian Manufacturers' Association for all industry. And breakfast foods is the least profitable segment of our business.

Of course, we have experienced cost pressures common to all business during this period. For example, in keeping with our rising standard of living, the average wage paid in our plants in 1951 was $1.01 per hour and, by 1957, had risen to $1.67 per hour. However, during the same period, the company's capital investment per employee or, in other words, the dollar value of the facilities available to him for production, rose by almost 70 per cent.

The cost of ingredients used in the manufacture of our products has steadily risen during the same period, as has the cost of packaging and transportation. Naturally, some of these costs have been reflected in our shelf price to the consumer, but here I would like to draw the Commission's attention to a counter influence which competition itself constantly affords.

Our company's products enjoy 10 per cent of the total ready-to-eat breakfast cereals business in Canada. There are two firms larger than we, and a number of other smaller competitors. We choose to compete primarily on the strength of rigidly protected product quality and of earning the consumer's confidence thereby. However, if our product's shelf price, when compared with our competitor's, is greater than the value the consumer believes she receives -- we are right there out of the race for her favour. Thus, when the cost of any component of the processes within our control is increased, our first and foremost reaction is not to pass this to the consumer and thus risk losing her vote in our favour, but to address

our utmost resources to any possible improvement in the processes of manufacturing or merchandising or distribution which will enable us to maintain the existing shelf price. This seems axiomatic, and yet it is a function constantly performed by the "chain of service" which, we believe, is given inadequate recognition. For example, gradually rising costs of cocoa beans over the past ten years have not been entirely passed along to the consumer in her baking chocolate purchases. Rather, they have actually stimulated the development of improved methods of chocolate extraction, affording greater yield and holding the shelf price increase to a minimum.

The cost of advertising and promoting breakfast cereals complete with premiums and displays has naturally been the subject of much interest, since its purpose is most apparent to the consumer. Yet, in our own company, it has not risen during the past ten years as a percentage of our sales volume. It has, in fact, decreased.

The amount of money to be used in promoting the sale of any one of our company's products is a predetermined decision. It is that amount which, in our judgment, will be sufficient to sell an economic volume of the product to the consumer. We must make this amount available from within the limits imposed by the costs of producing the product plus earning the desired margin of profit from it -- and the shelf price which will attract the consumer in competition with other products. Once this amount

has been determined, then the decision as to how to invest it for optimum return becomes a question of method. Our use of premiums, for example, does not add to the shelf price of our products. This is simply an allocation of funds already set aside to sell a product to the consumer. Premiums, just like any other form of promotion, are used so long as it is apparent that this method of attracting the consumer's interest is effective. Certainly the use of any particular kind of promotion is a matter of opinion, and methods of advertising and sales promotion vary widely from one company to another. We may rest assured that no advertising expenditure will continue to be made, unless the consumer approves it by her response in purchasing the product it supports.

The interest in the food industry which the Commission's study has generated throughout Canada will inevitably be of value to the Canadian consumer -- and no less so to all responsible members of the vital process of providing her food. The information requested through your questionnaire afforded our management group a reason for a rewarding examination of our functions. And I have personally appreciated the privilege of presenting to you today some of our convictions bearing on the Commission's inquiry.

My colleagues and I are prepared to be of any further help which our resources permit.

THE CHAIRMAN: Thank you, Mr. Miller. Mr. MacKichan, have you any questions?

COMMISSIONER MacKICHAN: Yes, I have one or

two questions, Mr. Chairman.

On page 3 in the fourth paragraph you express the view that it is your belief that the spread will continue or even may increase. That is just a rather disturbing thought. You say that for reasons not within the control of the farmer, processor or merchant -- would you enlarge on that paragraph, Mr. Miller?

MR. MILLER: Well, I believe that if consumers through various ways that they can indicate to manufacturers continue to indicate more and more interest in and a further demand for or acceptance of services supplied by processors, that we are going to provide those services, and if those services cost money, as they all do, they are bound to eventually be reflected in the price that the consumer ultimately pays.

It is on that basis that I make the statement that the spread, we believe, will continue because we certainly see no evidence at this stage of the consumer not continuing the present degree of interest in these built-in services. It is possible that that demand may increase instead of decline.

COMMISSIONER MacKICHAN: I would take it then the package manufacturer and the advertising people and other manufacturers would credit the buyer with an acceptance and continuation of this trend, and the Canadian Association of Consumers, on the other hand, along with other buyers, will have

to take the blame. Credit or blame just depends where you sit?

MR. MILLER: I certainly would not want to complain. We are quite glad that they want those things. The more services we can perform the greater volume of business we can do and to be perfectly frank and honest, that is one of the reasons why most of us are in business, to do more and more business, and as long as we can provide these additional services that are acceptable to the consumer, we think we are fulfilling one of our primary responsibilities.

COMMISSIONER MacKICHAN: I think that thread of thought has run pretty well through your brief. My wife and the other buyers will just have to quit hollering about these spreads here and come to the conclusion they are getting value for their money?

MR. MILLER: We sincerely believe they are. For example, I referred to soluble coffee in the brief. Soluble coffee today in Canada represents on a per cup basis nearly -- and this varies across the country -- on a national average basis soluble coffee now accounts for approximately one-half of all the cups of coffee drunk in Canada; at least, coffee sold out of grocery stores. We cannot measure restaurants and institutions.

Now, we know that we can produce with less waste these cups of coffee than can be done by the potful in the home using ground coffee, and this is certainly reflected in the price that the consumer

8

pays. The consumer can buy a c p of coffee from the use of soluble coffee considerably cheaper than they can from the use of ground coffee; and this is purely a result of the mass production of that product as compared to the waste in the home, and this is quite typical of the so-called conveniences.

I have two or three other examples of a saving that results. For instance, we recently in the past year or so introduced some chiffon pie fillings. Now, chiffon pies, as we understand from the market research we have done, are not very popular, have not been a very popular pie in the home; quite popular in restaurants and hotels but have not been too popular in the homes. What our research tells us is that the reason they have not been popular is because they are both expensive and time-consuming and that there is a high degree of risk of failure, so we set out, through our research, to create a chiffon pie filling and we now have them on the market. Our home economists estimate that the cost of the filling -- I am not talking about the pie shell now but the cost of the filling -- alone using a Jello chiffon pie filling, if you don't mind the commercial, is 19 cents. If you start from scratch and make a chiffon pie in the traditional method in the home the filling itself costs 54 cents.

Then in addition to that there is a saving of time for the housewife. She can make a filling for a chiffon pie, using our product, in five minutes, and the best she could do in the other method, and we

are not counting cooling time, sir, is 24 minutes; so there is appreciable saving both in cost and in time to the housewife. We think that she gets as good a pie filling now and I think the risk of failure is practically eliminated, so I think that is another example, and we could go on with many others in this area.

So we really think that we are providing a real service to the Canadian consumers through the development of these kinds of products.

COMMISSIONER MacKICHAN: You mentioned that your profit had decreased and were lower than in some other industries. Would the security of the business that you are in, that is food products, knowing it is going to be a continuing business -- we may not buy a television set, but we have to have breakfast cereal, would that have something to do with it?

MR. MILLER: I am sure it does, and that is why I believe that the food industry in general operates on much more margin than is true of most industries. In our particular case, as I indicated over this past 10-year period I think we furnished the figures here on an 8-year basis because of a peculiar wrinkle in our situation, our profits have been about 20 per cent lower than the average reported by the Canadian Manufacturers Association for all industry. I further indicated that the breakfast cereal segment of our business which accounts for, as I said, a relatively small proportion of our business, is the least profitable line we are in.

COMMISSION MacKICHAN: You have a large number of lines?

MR. MILLER: Yes, quite a large number of lines.

COMMISSIONER MacKICHAN: Now, in the middle of page 10 you mention that the use of premiums did not add to the shelf price of these products, "This is simply an allocation of funds already set aside to sell a product to the consumer". Would that be just a bit of an over-simplification?

MR. MILLER: I do not believe so.

COMMISSIONER MacKICHAN: They came out of earnings or profits originally, did they not?

MR. MILLER: We determine how much we think it will cost us to move a given volume of products to consumers for each of the products that we are carrying. I have got a pretty lengthy answer, a five-page answer to this question on premiums and sampling.

THE CHAIRMAN: I think we would like to hear it.

MR. MILLER: I imagined you would think that I perhaps should not give it to you.

THE CHAIRMAN: I think we would like to have it.

MR. MILLER: Let me explain in a little more detail how we arrive, first,at the decision as to how much money to spend in promoting a given product, and, second, how we decide how that money will be divided up into the various methods of promotion selected for best business results.

General Foods, Limited, operates on a fiscal year basis, and by three months before the start of a new fiscal year, each of our product managers must present what we call a "profit plan" for his product for the coming fiscal year. In other words, 15 months in advance he must evaluate all the production and selling costs he can reasonably expect, estimate what his sales will be, and then estimate what the profit for the year will be. In order to

assist him, our staff services provide the product manager with as much information as possible on the expected costs of raw materials; competitive trends, including pricing forecasts; some indication of labour costs plus the effects of new investments in plant and equipment on productivity; the likelihood of such new costs as freight rate increases; and a multitude of other data. You can readily see, I am sure, that drawing up a profit plan for a product is a very complicated and yet a very essential element in our business.

After a product manager has assembled his estimated "fixed" costs, he must determine what amount he will spend for promotion and other selling costs to achieve the volume he must have to realize his hopefully anticipated profit figure, which often comes down to fractions of cents per unit.

The point we should keep in mind is that the total amount to be spent on promotion is determined well in advance -- and that this is a first decision, made before a product manager begins to sit down and figure out how he will spend those funds.

Now, let's move to the second question: How does a product manager determine what methods of promotion are best suited for him to achieve the sales volume at the price level he has set in order to realize his estimated profit?

Again, this is a hard business decision which demands the utmost in marketing skills. Let's

consider just a few of the almost innumerable promotion tools the marketing manager can use. He can use advertising on television, radio, newspapers, magazines, and food trade publications. Each one of these media costs real dollars, as you can appreciate, and this is just the beginning. Other promotion techniques available include store displays, samplings, premiums, contests, two-for-one offers, combination offers with other products -- plus many, many others, including some no one of us may know about because there are new devices introduced each year in this very competitive industry.

Often, the position of the product in the market will help the product manager in allocating his promotion funds. If it is a new product, he may well decide to use consumer sampling or premiums to introduce the product to the consumer. If it is a well established brand name, the product manager could conclude that nearly all of his promotion allowance should be spent for consumer advertising on television and in other national media. If the product manager is handling what we term a "mature" product -- that is, one such as baking powder which is being supplanted by more modern products and for which we see a declining volume over the years -- then he could decide that he will spend very little for promotion as a whole.

These two decisions which each product manager must make -- first, how much he will spend for promotion, and, second, how he will break that

amount down into various promotion devices are management decisions which are basic to success in the intensely competitive food industry.

Let me tell you a bit more about premiums and consumer sampling, since they have been brought up as specific kinds of promotion activity.

Now, this is the process we go through on some 40-odd different products, and I say with all sincerity the amount of money that is to be spent for promotion is determined ahead of time just as much as the amount that we forecast will be spent for raw materials and for transportation and for labour costs and all other elements of the cost of producing the product. We sincerely believe that whether we elect to spend it on premiums or samples or whatever it is or basic advertising that the total cost of promotion will not fall significantly.

COMMISSIONER MacKICHAN: I was not so much concerned with the magnitude, my feeling is that it costs money, as you said, and that eventually it is going to find its way to the shelf and the pocket of the consumer.

MR. MILLER: The other side of the coin is if you do not spend money you won't get the volume, and there the unit costs are going to be up probably higher than --

COMMISSIONER MacKICHAN: I am in complete agreement.

COMMISSIONER WALTON: Just by way of curiosity, when you had this forecast of your advertising ahead

of time, I mean your preparation of the form it will take, that is part of your decision, but it seems to be rather coincident that at the same time that 10 cents off on soluble coffee will appear on all brands of coffee. I wondered how many months ahead of time everyone will anticipate that?

MR. MILLER: When soluble coffee became popular a real promotion effort was put forward in Canada. This started in 1954, and we were responsible, we were the culprits that started this 10 cents off business, and the reason was that we had just made a pretty substantial capital investment in the soluble coffee plant in Montreal and this was, up to that time, I think our greatest single capital expenditure in Canada. We thought we had built a plant, installed a plant that would take care of our requirements for a period of not less than 10 years. When this plant went into production in June of 1953, in 1954 we had a lot of capacity we were not using because we had planned this plant for a 10-year period, and naturally we wanted to sell all the soluble coffee we could. There had been another brand of soluble coffee in existence in Canada for a few years, it had some 70 per cent or 80 per cent share of the market, and their product was a good product too, so we thought we had to find some different way of promoting soluble c offee than they had been using over the years. We started this off-label deal, and it worked pretty well, because within a couple of years we had taken over the leadership in the soluble coffee category in

Canada and we have been able to maintain that leadership since. However, after about a year or a year and a half of these off-label deals, we became a little concerned that the continuation of this would be harmful, and we would rather work towards lowering the margins rather than shot-in-the-arm promotion. Since we had demonstrated leadership in starting these things we thought we ought to demonstrate leadership and stop it, and yet we had gotten our competitors to follow our lead, so if they followed our lead in the use of off-label deals, once we stopped them, we thought they would follow. However, they would not follow our lead and stop, and so they have continued right along up until, I would think there is probably as much emphasis on them today than there was a year or a year and a half ago.

COMMISSIONER WALTON: It has spread to soap now.

MR. MILLER: It has been very predominant. In the meantime, however, we have done a lot towards reducing the margins in the basic prices, and we have suffered because the off-label deal seems to be pretty popular with a lot of consumers even though our shelf price is for all practical purposes the same as the price of the other product, the net price of the other product. There is something about that 10-cent off splashed all over the label that seems to attract a lot of people even though the net cost to them is practically identical. If you were referring to the possibility of collusion on the

part of manufacturers because each brand seemed to have them at the same time, I can tell you there is one brand that for a period of 2-1/2 years did not sell one jar of soluble coffee in Canada that was not off-label price, that was their regular pack. Our philosophy on off-label deals is to move in and out. We think we have not done a good operation if a product stays on the shelf more than 30 days, for instance.

For example, I think that off-label deals in soluble coffee tended to make a lot of consumers think that there is something wrong with the product. They put it on a bargain basement category because there have been so many deals in connection with it.

We would much rather see, I think, this product in the lower shelf price without so many deals. That does not mean I am opposed, or that we are opposed, to price promotions because we think they are very necessary and a helpful thing and good for us and for the consumer alike. I think if they are used too consistently they give the consumer the wrong impression.

COMMISSIONER WALTON: It is easier to start than to stop?

MR. MILLER: In connection with soluble coffee we have been trying to overcome the feeling that it is a product that is inferior to the regular coffee. It is a surprising thing about soluble coffee; probably if you were to question all the people in this room, everybody that is a coffee drinker would say, well, soluble coffee is not real coffee. I will take a good cup of coffee. I will make it out of roasted coffee, and yet practically all of the taste tests we have conducted between consumers, between regular and soluble coffee, turned out with wins for the soluble coffee. We cannot explain that.

I think myself you get a better cup of coffee with the regular than you do with the soluble although I can't prove it in blind taste tests.

COMMISSIONER WALTON: Thank you.

COMMISSIONER MARTIN: I have just one point. You have quoted the Royal Commission on Economic Prospects in Canada and in that connection, if I remember correctly, it was stated that the demand is not very elastic in the consumption of food, and on page 6 in the middle of the last completeparagraph you say, "benefits because of increased consumer demand." How can you reconcile those two points?

MR. MILLER: My theory is this: take the case of breakfast cereals. The consumption of breakfast cereals in Canada over the past ten years has been greater than the growth of population. I cannot quote the figures but I think it is almost double. The percentage increase in the consumption of breakfast cereals is almost double the same increase in population in the same period of time.

I think that is due to the promotional efforts of the breakfast cereal manufacturers for the most part and I am of the opinion, obviously, that increased consumption of breakfast cereals result in greater usage of the raw materials, wheat, corn and so on, grown on the farm. I am reasonably sure that if the level of promotion that breakfast cereal manufacturers put into that category was to drop that it would show up in decreased consumption.

COMMISSIONER MARTIN: Well, would it result in an increase in consumption of breakfast foods but not in the total consumption of foods, just replace some other food?

MR. MILLER: No, I don't agree with that concept at all during this testimony given here today, in which people stated that there is only so much that can be consumed. I do not think that is quite true.

Referring again to the coffee business, as I say, we are selling more regular coffee per capita today than we ever did and soluble coffee is about the same volume on a per cup basis as regular coffee. That means that the coffee consumption in Canada has doubled since 1953. Now, I don't know if the Canadian kidneys are getting larger or not but I do know that more coffee is being consumed and I also know that the other primary beverages, with which coffee is a competitor, have not declined as much as coffee has increased, not nearly as much; so I think that there is more consumed.

Now, in the case of coffee you can trace it to a lot of things -- these coffee breaks in factories and offices and so forth -- that accounts for a lot of this, and television accounts for a lot of this.

COMMISSIONER KIDD: You are all in favour of coffee breaks?

MR. MILLER: We think they result in greater efficiency and greater performances ---

COMMISSIONER KIDD: I have been waiting to hear someone say that for a long time.

MR. MILLER: Yes, we are right at your side.

4

COMMISSIONER WALTON: Following Mr.Martin's question, where you were speaking about breakfast foods, I take it you are referring to prepared breakfast foods?

MR. MILLER: That is right.

COMMISSIONER WALTON: Do you suppose the increased consumption and the promotion over the past few years has not reduced the consumption of another type of breakfast food which would be the good old hot porridge and that type of thing? Would you have any knowledge about that?

MR. MILLER: I don't really know. I would not be surprised but that that may be true, to some extent, because of the fact that it is easier to serve breakfast with a prepared food than it is with the old porridge.

COMMISSIONER WALTON: In other words then a lot of farmers may have been selling less?

MR. MILLER: Except this, that we just introduced ourselves this year a new oat cereal and there are at least two ready-to-eat cereals made from oats, so I don't know whether our usage of ---

COMMISSIONER WALTON: Are you going to promote those two?

MR. MILLER: Haven't you ever heard of "Alphabets"? Bob tells me we are buying right now about two million pounds of oat flour for this year that we never bought before, so I don't know how much the other oat cereal manufacturers' losses may have been or I don't know if they have losses at all.

I am sure this would help take up the slack if there had been any decline.

We are constantly, as are all our competitors -- I think within the last two weeks three new ready-to-eat cereals have been announced in Canada. I know the number of major brands of ready-to-eat cereals increased by fifty per cent during the last eight years. If my calculations are right back in 1951 there were 19 major brands of ready-to-eat cereals and today there are 29 brands of prepared breakfast cereals.

COMMISSIONER KIDD: Has this proliferation of brands increased the cost to consumers?

MR. MILLER: Well, I don't think so. The example I gave here of the product that had been in existence during that period the selling price had increased by a quarter of a cent per ounce during a ten-year period from 1½ cents to 1 3/4 cents. I think that is not a very substantial increase as compared to the increases in other segments of the economy. For instance, our wages and fringe benefits have increased a lot more than that and our transportation costs have increased a lot more than that.

COMMISSIONER KIDD: I suppose the increase in wages has been constant?

MR. MILLER: Yes. I pointed out, I think, our wages have increased about 16 and some odd per cent in this eight-year period. It is more striking to me to see the increases in fringe benefits. We do not have good figures except for the last three or four years on fringe benefits. Our fringe benefits

today amount to 51 cents an hour. I said in a previous presentation that it was 33 cents an hour. I think there may be some difference in definition of what is a fringe benefit but we have found out our fringe benefits today amount to 51 cents an hour. I do not know what they were ten years ago on an hourly basis.
2 We did not define some of these costs as well then as we do now.

I am not crying about this because we think that one of the reasons that the consumers can pay for these services they want us to perform is because they are earning more money and getting more of the benefits in one form or another. We think it is healthy and we are in agreement with fringe benefits. We are proud to have what we think is one of the best fringe benefit packages available in the Canadian industry and we are able to attract a better class of people, and all that, as a result of having this kind of wage rate and these kinds of benefits, and we think ultimately it is a good investment, but nevertheless it contributes to that top line up there.

COMMISSIONER DRUMMOND: Just one or two questions. First, in regard to this matter of promotion about which you have spoken at considerable length; would it be correct to say that promotion expenditure is relatively ineffective except in respect of a new product or what you would call a different product?

MR. MILLER: No. Let me give you an example. We manufacture a product that you may have

heard about. It is called Certo. It is a pectin to help the housewife to make jam and jelly in the home.

Now, if we did not have some kind of promotional devices that called to the attention of both the trade and the consumer that it is time to start getting ready to do your jam and jelly making, I know that -- because we have experimented with this to our dismay -- we would not sell nearly as much Certo as we do.

In this case our form of promotion is a display in the grocery store of the Certo with the needed items, such as jars and also the fruit. Then, our whole advertising is geared to the fruit seasons. First, the strawberry season, and then the raspberry, and then later peaches and so forth. Our advertising agency in the placement of these -- we use the newspaper for Certo because it is the most flexible media you can use. You can decide with less lead time that you are going to run or not run advertisements with newspapers than you can with most everything else.

Our agencies keep in very close touch with the marketing or agricultural groups in various sections of the country, and get up-to-the-minute telegraphic reports on how good the crop is, and that sort of thing, and we know then whether it is wise to spend the money for our advertising. As you may know, in the last few years, we have had a number of almost failures in the strawberry crops in various sections of Canada. When that occurs we don't spend much money in those sections on advertising in the strawberry season.

COMMISSIONER DRUMMOND: You would say the promotional programme is likely to be just as much related to the nature of the activity as to the product?

MR. MILLER: Absolutely. During the Lenten season we promote this rice product of ours; we work out a joint promotion with the canned salmon people and develop recipes and have displays in grocery stores, and the consumer can tear off a recipe from a display and buy the related items, and she has got the meal all planned --the main dish of the meal. We think the seasonal aspect and recipe promotions are very fine things in maintaining a volume of business that helps us in not contributing any more to rising food prices, because if the volume was not maintained our prices would have to be higher or our profits would be reduced, and correspondingly we would not be fulfilling our responsibility to the economy. In this particular

instance we think we are helping to some small degree the fishing industry, salmon canning and so on.

COMMISSIONER DRUMMOND: This may be harking back a little bit, but on page 8 you summarize a good deal of your argument in one sentence when you say, "We have suggested, in effect, that 'spread' may actually be the value of convenience and services added to the primary product." Would this be a correct supplementary statement to that: That if you could, or if all the consumers could put the proper price tag on the value of their services, and so forth, that there would, in effect, be no increase in the spread at all?

MR. MILLER: Oh, I think if we could estimate how much per hour the wages and fringe benefits a housewife is worth, that we would not be having this meeting here.

COMMISSIONER DRUMMOND: On page 3 you touch on this: You were talking about new products -- it is right at the top of the page -- and you say you sold two different types of the same general type of product, and you say the consumer is buying a greater volume of the two together, than she would be buying if the older product were the only product available.

MR. MILLER: That is an assumption on our part, obviously.

COMMISSIONER DRUMMOND: My question is this: Your assumption may be completely valid, she may be buying more of those two things added together, but in order to do so, do you not think you would

have to consume less of some other product?

MR. MILLER: Well, the per capita consumption of breakfast cereals is going up faster than the rise in population, and the consumption of eggs and bacon and fruit juices is also going up, and those are the principal breakfast items. I think people are eating better breakfasts than they used to. We, of course, are great believers in the principle that as the standard of living continues to increase that there isn't any better place for the consumer to put extra expense than in food, because we know, and we saw the studies made during the last war, that there is a great need for raising nutritional levels; even in North America, with the most advanced standards of living in the world, there were still glaring inefficiencies in nutrition, and I don't think there is any question but what they are better today than then, but there are still an awful lot of children who go to school without an adequate breakfast.

COMMISSIONER DRUMMOND: On page 9 you state the cost of ingredients used to manufacture your products has steadily risen: Would this be true of raw cereals?

MR. MILLER: I believe that the percentage of cold cost of goods in our breakfast cereals -- that the raw materials cost about the same percentage or even greater percentage of the sales dollar today than they did in 1951.

COMMISSIONER DRUMMOND: Your major raw

materials would be the raw cereal -- grain?

MR. MILLER: The major raw materials are grain, oat flour -- grain derivitives, plus sugar.

COMMISSIONER DRUMMOND: The point is that the bottom line on this chart has been going down during this period, and it includes those things, and I just wondered --

MR. MILLER: I don't want to get into an involved discussion, but there are a lot of things about this chart that, frankly, I don't understand. I am of the opinion, based on what little I have been able to analyze of it, that there are some non-food items in the bottom line; for instance, tobacco and things of that nature, that could have an effect on it, and I am also reasonably sure that there are some things in the top line that represent raw materials other than what come from Canadian agriculture.

THE CHAIRMAN: The reason we are using this is that when the consumers come to us and speak about the prices they pay, the top line is what they quote. When the producers come and talk about the prices they receive, it is the bottom line they give us. This is the problem in so far as --

MR. MILLER: I don't envy your situation at all.

COMMISSIONER DRUMMOND: At the top of page 10 you say the cost of advertising and promotion has not risen during the past 10 years as a percentage of your sales volume; that it has, in fact,

decreased. In spite of that, may that cost of advertising and promotion not very well have risen at so much per unit of product?

MR. MILLER: Yes, it has risen on a per unit basis, just as everything else has; but the percentage of sales has declined.

COMMISSIONER DRUMMOND: There is just one other thing --

MR. MILLER: Pardon me: on a per unit basis, the cost for instance in 1952 and the cost in 1958 has gone up 3 cents per what we call a standard case, and that is about 5 per cent; and I think, even on a per unit basis, that is a pretty nominal increase as compared to all the other factors that come into it.

COMMISSIONER DRUMMOND: You may have noticed this morning that it was suggested to us that the big changes in modern retailing were, after all, or did, after all, represent an attempt to adjust the previous technological and other changes which had occurred further back in the production and processing end. We have also been told at several times and places that the changes in the production, processing and wholesaling end have really been reflections of the changes at the retailing end. Which of these two statements do you think is nearer the correct one?

KK
PM:iz
11/13

MR. MILLER: I would not care to choose because I am of the opinion that this is not retailer versus processor versus farmer. As we tried to point out, I think they are all part of the same process and that we all are certainly sure there has been a great advance from the standpoint of efficiency on the farms. I do not know if I am quoting accurately or not, but I believe that the number of people fed by the labours of one person on a farm has jumped from four over some five years to twenty some people today, so there have been dramatic increases in the efficiency of productivity of farm labour. There are many increases in our end of the business, in the processing end of the business, and certainly there has been a lot of progress made in this regard in the distribution end of the business.

In connection with that, back in August the Globe and Mail ran an article that I was sure one of those chain store people would have quoted today. This is an article of August 26th, and the headline is "First Supermarket brings mass protest from Israeli Grocers." It goes on to say that twenty stores are going to put ten thousand people out of work:

> "Food accounts for approximately two-thirds of the family budget here. Inefficient distribution to the large number of retailers with small turnovers is also responsible for high prices. The iniatator of the enterprise, Bertram Loeb, president of the chain of supermarkets in Canada, says prices in the new stores

would be ten per cent below the range here. He said that would be possible by eliminating the middleman, large quantity purchases for cash and smaller profits."

I am glad to submit this for the chain store people because I think it is a true reflection of the terrific job they are doing and have done, and the Canadian consumers are benefitting from it and it is now beginning in Italy and Israel and spreading throughout the world.

COMMISSIONER WALTON: When the twenty stores put the twenty thousand people out of business where are you going to get the money to keep things going?

MR. MILLER: Well, we can put them on the 401 Highway with picks and shovels, but it would not be to the benefit of the Canadian public.

COMMISSIONER KIDD: No, but it might be done just as quickly.

THE CHAIRMAN: This has indeed been very enlightening, Mr. Miller, and I would like to thank you on behalf of myself and my colleagues for coming to see us today.

We will adjourn now until ten o'clock tomorrow morning.

---Whereupon the hearing adjourned until Friday, November 13th, 1958, at 10.00 a.m.

Dorothy Walton

ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.: 24 DATE: NOV 14 1958

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
371 BAY STREET
TORONTO
EM. 4-5773 EM. 4-5865

ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products resumed at 2.00 p.m. on Wednesday, November 12th, 1958, at Ottawa, Ontario

---

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary	John Dawson
Assistant Secretary	A. A. Caron

Friday,

November 14, 1958

Submission of

KELLOGG COMPANY OF CANADA, LIMITED

Appearances:

Mr. G.M. Johnston	President
Mr. G.D. Robinson	Vice President
Mr. L.E. Rochester	Vice President
Mr. M.P. McBain	Secretary-Treasurer
Mr. S.B. Angwood	
Mr. L.E. Harding	

THE CHAIRMAN: The first submission this morning is on behalf of the Kellogg Company of Canada. Mr. Johnston, would you like to introduce your colleagues who are with you?

MR. JOHNSTON: Yes. On my left here is Mr. McBain our Treasurer. On my right is Mr. Robinson, Vice-President in charge of sales and behind we have Mr. Harding our general counsel. In the centre Mr. Angwood, our comptroller, and on the right behind is Mr. Rochester, Vice-President in charge of advertising.

We are grateful for your invitation to appear before you and hope we will be able to assist you in your search for information concerning the

subject under study.

First, I should like to make a few observations about the grocery business in general.

Structure of Grocery Business in Canada: To supply the high standard of living required by the Canadian consuming public the grocery business is, of necessity, a very complex business. While the major portion of the primary ingredients is produced in Canada, a good percentage of the total has to be imported.

The chief function of the grocery business is performed by shipments from the food manufacturer, in large quantities, to the wholesale grocers. This secures the most economical transportation rates over long distances to the district that is serviced by the particular wholesaler. The wholesaler makes the short haul deliveries to his retail customers in the area that he serves. In some instances the wholesaler has no delivery and in such cases the retailer picks up his requirements from the wholesaler.

Some manufacturers of more perishable products, in the interest of speed, deliver directly to the retailer or to the consumer. This system entails high distribution and collection costs.

Import houses or brokers are required to import, warehouse and distribute imported goods. They furnish the food manufacturer with imported products that he may need as ingredients for the products that he makes. Imported products that are

manufactured and ready for re-sale are delivered to the wholesaler or retailer in accordance with their requirements.

The Grocery Manufacturer: Throughout the lifetime of the grocery business in Canada, it has been and is a very keenly competitive business.

There is an increasing consumer demand for foods that entail as little household work as possible and for convenient and sanitary packaging. Canada is a large country with wide variations in climatic conditions. The manufacturer of food products must package his products so as to withstand these conditions during long freight hauls or during delivery from wholesaler to retailer. The food manufacturer has spent great sums of money in research and quality control to be sure that his products are made available to the consumer in the proper quality and in the most remote parts of the country. All of these things must be done and the product must be placed on the retail shelves at attractive and competitive prices.

The food manufacturer is conscious of his responsibility to the consuming public and is continuing his efforts to improve the food that he delivers to Canadians.

The Wholesale Grocery Trade: One of the more costly items in grocery distribution in Canada is the great distances to be covered in shipping. The wholesale grocery trade has done a remarkably fine job in assisting to keep this freight cost to

a minimum. The wholesalers blanket the whole country and are located in centres that enable them to service the retail trade in their area with fresh goods at all seasons of the year.

In addition to their primary function as wholesale grocers they have given very substantial assistance to retailers in modernizing their methods and equipment so as to bring the present high standard of service to the consuming public.

Competition is very keen between wholesale grocers. They have always been conscious of their responsibility to the consuming public and have played an admirable part in supplying goods in all sections of the country.

Retail Grocery Trade: The retail grocer is the final link in the chain of distribution and, as such, meets with the daily and exacting demands of a well fed public. The retailer has to supply high quality goods to satisfy a multitude of tastes and desires. He has had to be conscious of quality, sanitation, service and prices.

The retail grocer has had to install modern methods and new equipment until today Canada has among the finest retail grocery stores in the world. Competition is very keen and as a result the retail grocers, both chain and independent, have given the public food products of quality, good service and low prices. They have done an excellent job.

Methods of Distribution: In the distribution

of food products many factors have to be considered.

First: The quality and nature of the goods must be protected so that they will be delivered to the consumer in good condition.

Second: They must be readily available in all sections of the country every day.

Third: There are great distances to be c overed in Canada. Deliveries must be prompt to retain quality.

Fourth: Transportation costs must be kept as low as possible.

All sections of the grocery trade, manufacturer, wholesaler and retailer are continually looking for cheaper and better methods of distribution.

Now, with these brief introductory remarks concerning the general structure of the grocery business in Canada, I should like to direct my comments to the operations of my own company -- Kellogg Company of Canada, Limited, but, first, I would like to give you a brief outline regarding the ownership of my company.

The Kellogg Company of Canada, Limited is a wholly-owned subsidiary of the Kellogg Company, of Battle Creek, Michigan, which we will call the parent company. The parent company has its headquarters, principal manufacturing plant, and research and development laboratories in Battle Creek, Michigan. It also has four other manufacturing plants in the United States. Its wholly-owned subsidiaries, in addition to the manufacturing plant

of the company in London, Ontario, have manufacturing plants in England, Australia, South Africa and Mexico. Manufacturing operations are also carried on in Eire, Sweden, Holland, Denmark and New Zealand.

The majority shareholder of the parent company is the W.K. Kellogg Foundation.

In 1930 Mr. Kellogg, the founder of the Kellogg Company, organized the W.K. Kellogg Foundation. This Foundation was established for the purpose of receiving and administering funds for the promotion of the health, education and welfare of mankind, but principally of children and youth, directly or indirectly, without regard to sex, race, creed or nationality, in whatever manner the Board of Trustees may decide.

Mr. Kellogg turned over substantially all of his stock in the Kellogg Company to or for the benefit of the Foundation and at the present time over 50 per cent of the stock of the Kellogg Company is held by or for the Foundation. Consequently over half of the dividends paid out by the Kellogg Company go to the Foundation.

The Foundation finances activities in various parts of the world. A considerable amount of its funds is budgeted for and is being spent in Canada.

And now to get back to the operation of the Canadian Company. The Company has been established in Canada since 1906, and the business has largely been confined to the manufacturing and sale of ready-to-eat cereals.

All the products sold by the Company are manufactured in Canada and as much as possible from raw materials grown or produced in this country.

A substantial part of the materials used in the manufacturing of cereals are products of the farm; however, we also use large amounts of sugar, raisins, salt, paper and paper products. The principal farm products we use are corn, wheat, wheat bran and rice. Our major grain ingredient is corn, which was originally imported, since the short growing season in Canada did not provide the type of corn suitable for dry milling.

At the close of the war the company spent, directly and indirectly, considerable sums of money in a program to develop strains of the proper type of corn which could be grown in Canada, and to provide facilities on the farms to properly cure and store the grain. At the same time our parent company engaged in extensive experiments to find methods of processing the type of corn available in Canada. As a result, we have been able to use an average of 704,550 bushels of Canadian corn per year. In the most favourable crop year we used 890,000 bushels and, each year, we use the maximum amount of suitable corn obtainable in Canada. The company has thus introduced a new agricultural product in Canada, which has been of substantial benefit to the Canadian farmer and economy.

Manufacturing our products is a very complicated and technical operation requiring special

techniques, formulas, processes and manufacturing know-how.

At the parent company's plant in Battle Creek, Michigan, research is being carried on continuously in development of new products. All our products are the result of this research. The parent company also has a staff of engineers at work developing new processing methods and equipment to improve our products and produce them more efficiently. The Canadian Company receives the benefit of this research at no cost. Were we required to do this necessary research and development, our costs in Canada would be increased a considerable amount each year.

Advertising and promotion of Kellogg's products: A packaged goods business, such as Kellogg's, depends on a completely integrated process of manufacturing, distributing and selling of low unit-cost products to millions of people.

In such a business, the whole key to volume manufacture -- and hence to low-cost manufacture -- is to keep the stream of goods moving off the grocers' shelves and into the hands of consumers every day in the year. The decision to buy, or not to buy, Kellogg's products is made thousands of times each day by thousands of people in hundreds of stores. If these thousands are not continuously reminded and persuaded to buy Kellogg's products, volume falls off and unit-costs increase. The principal means for such mass persuasion is advertising. This is particularly true in the case of an institution such as Kellogg's,

which sells to the entire country, and where low costs are dependent upon continuous maintenance of volume production.

Accordingly, in order to increase volume and reduce unit-costs, Kellogg has from the beginning extensively advertised and promoted the sale of its cereal products through advertising in daily and weekly newspapers, and in nationally circularized magazines throughout the country. In recent years a substantial amount of advertising of Kellogg products has been made over radio and television broadcasts, both by spot announcements and programs of some duration. The costs of advertising are continuously increasing, along with the costs of other things which the company buys. You can be sure that the company only advertises to the extent it believe it to be absolutely necessary.

Ready-to-eat cereals are in direct competition with the so-called hot cereals, such as oatmeal, farina, and numerous mixtures of various grains, which require cooking before serving. Not only are ready-to-eat cereals in competition with each other, and with hot cereals, but they are also in competition with every other item which seeks acceptance on the consumers' breakfast table, such as: bacon, eggs, ham, waffles, hot cakes, fish, meat, toast, sweet rolls, doughnuts, coffee cake, etcetera.

During the early years of the company house-to-house sampling was used extensively to promote our products. However, due to the manpower required

at an ever-increasing cost, this type of promotion became too expensive.

Also during the early years of the ready-to-eat cereal business in Canada, it was extensively advertised as a "Ready-to-Eat Warm Weather or Summertime Breakfast Cereal." This had the effect of heaping business up in the middle five or six months of the year --April through September. From October through to the end of March our factory was practically idle. This meant that the April to September period had to carry all of the fixed expense for the entire year.

It was also difficult to retain a well trained staff, as we had long lay-off periods. From one-half to two-thirds of our people were laid off in October and did not return to work until April of the following year.

We tried out numerous advertising and promotional devices, including free-deals, e.g., such as one case free with five, in the effort to lift our business during the cold period from October to April. This policy was pursued during the years 1924 through 1936. Each year one or two free deals were used, mostly two, but the pattern of business did not change. This policy did not create consumer demand and our products piled up at wholesale and retail levels. It also imposed a penalty on us insofar as we had to pick up a lot of unsalable goods caused by excessive stocks in the field.

In 1937 a new promotional and advertising

plan was introduced. We began using both adult and juvenile premiums during the cold period, backed by advertising and store display material. The results were almost immediate and, by 1941, we had levelled out our shipments to a year-round business. We have operated on a three-shift basis in our factory and have not had a lay-off of any consequence since 1942. This has substantially benefitted our employees by giving them steady employment throughout the year.

The following table shows a comparison of the division of our factory shipments by quarters of the years 1936 and 1956: That is a 20-year period.

You will note we shipped in the first quarter of 1936 15.1 per cent and in the first quarter of 1956, 25.1 per cent. And in the second quarter of 1936, 33.6 per cent, and in the second quarter of 1956 27.4 per cent. That is a drop of 6.2 per cent. In the third quarter of 1936 we shipped 43.9 per cent, and in 1956 we shipped 26.8 per cent. In the fourth quarter of 1936 we shipped only 7.4 per cent and in 1956 20.7 per cent.

This greater utilization of our production facilities during the colder months of the year has been a major factor in keeping down the selling price of our products.

In this age of the grocery supermarket that stocks thousands of items, it is essential, if a product is to compete successfully, that the packaging be attractive. The decision to buy or not to buy is influenced to a great degree by appearance of the

package. This attractive packaging complements the advertising and helps to increase the volume of sales which is so necessary to keep unit costs and prices at a minimum. As ink costs are an infinitesimal part of the total cost of a package, the difference in cost between a package with only an identifying name and one printed to be attractive on the retail shelf is insignificant.

Our products are sold in every area of the country and as they are semi-perishable they require package protection of a type that will get them to the consumer in the freshest condition possible. As better packaging materials are developed we make use of them. Within the past couple of years aluminum foil has come to be used extensively to preserve the freshness of some of our products. We continuously endeavour to improve our packaging so our products will reach the consumer in an acceptable condition in the remotest area of the country.

Ready-to-eat cereals are a low priced highly nutritious convenience food. However, they account for less than 1 per cent of the total food sales in Canada.

Selling Price of Kellogg's Cereals: The following table shows an index of the composite selling price of Kellogg cereals in Canada.

You will note that there was a substantial increase in the selling price for cereals from 1950 to 1957. The reason for that is that there had been increases in costs. Freight went up 33 per cent,

transportation costs increased by 19.8 per cent. Grain prices increased by 17 per cent and packaging materials had gone up by 31 per cent. They stayed pretty well level there until 1956, and then they took a second jump in 1956 to 1957. The price increased by 14 index points.

There had been significant increases taking place in our prices from 1951 to 1957. From 1951 to 1957 labour costs increased by 57 index points. Transportation costs increased by 62 index points. Grain prices were dropped by 11 index points, and packaging materials had increased by 22 index points.

During the year 1957 we introduced a new product which was a higher cost specialty cereal.

	Kellogg Co. Cereals
1949	100
1950	101
1951	119
1952	121
1953	121
1954	120
1955	120
1956	121
1957	135

Our profits -- do you wish me to read all those figures? You will note there in 1949, using an average of 100 there was a slight variation downward and then upward again, and then in 1957 our profit was down 6 per cent below the 1949 level.

Profits: Following is the profit of a composite eight-ounce package for each year.

		Index
1949	$ .0199	100
1950	.0197	99
1951	.0134	67
1952	.0159	80
1953	.0182	91
1954	.0186	93
1955	.0201	101
1956	.0205	103
1957	.0188	94

Although the selling price of Kellogg products has increased 35 per cent between 1949 and 1957, profits per composite eight-ounce package have actually declined. Thus, any increase in total profit of the company in 1957 over 1949 is all because of increased tonnage sales.

Labour Costs: A high degree of mechanization has always been maintained in our factory, and some major improvements have been made during the period in question. The quantity of cereals produced per employee hour increased by 9.9 per cent between 1949 and 1957. However, factory labour rates, increasing consistently year after year, have risen far more rapidly than productivity.

The following table shows the average hourly base rate and the hourly cost of fringe benefits for factory employees.

It is not necessary to read all these figures, I suppose. Using the 1949 as 100, the hourly rates

have increased from 98 cents per hour to $1.66 and fringe benefits from 25.6 cents have gone up to 74.73, and the total has gone up $2.41 per hour, or an increase of 95 per cent. It has always been our company's policy to pay as high as or better than any industry in our area, and we are rather proud of this record.

	Hourly Wage Rate	Cost of Fringe Benefits	Total	Index
1949	$ .9836	$ .2560	$1.2396	100
1950	1.0488	.3974	1.4462	117
1951	1.2201	.4914	1.7115	138
1952	1.3394	.5087	1.8481	149
1953	1.4171	.5794	1.9965	161
1954	1.4927	.6047	2.0974	169
1955	1.5371	.6630	2.2001	177
1956	1.6142	.6790	2.2932	185
1957	1.6690	.7437	2.4127	195

Transportation Costs: Our products are sold freight prepaid to all sections of the country. The increase in freight rates since 1949 has been a factor in increasing costs. The following is an index of the freight rates in Canada, applying to the class of commodities in which cereals are included, as published by the Canadian Industrial Traffic League.

	Index
1949	100
1950	108.3
1951	119.8
1952	152.9
1953	163.6
1954	163.6
1955	163.6
1956	175.2
1957	181.8

You will note that has gone up 81.8 per cent.

Grain Costs: Cost of the basic grains used in the production of our products have not varied greatly during the years 1949 to 1957. Following is the composite cost per cwt. of the grain (corn, wheat, wheat bran, rice etc.) used by the Company each year: There has been very little change. It went up for a while and went back down. In 1957 it was 6 per cent above the 1949 cost.

		Index
1949	$ 3.83	100
1950	3.90	102
1951	4.48	117
1952	4.54	119
1953	3.96	103
1954	3.63	95
1955	3.57	93
1956	3.46	90
1957	4.06	106

It will be noted that our composite grain costs do not parallel the prices paid to farmers, as shown by the Commission's chart, which shows a sharp drop in prices paid to farmers since 1951.

At the end of the World War in 1945 there was a world-wide shortage of food, particularly in devasted countries where food production was very small and livestock had been confiscated or badly dimished. Consequently, there was an unprecedented demand for Canadian farm products, and by 1949 farm prices had risen substantially. This demand continued during the Korean War and farm prices continued to soar through 1951 when other countries got back into production and Canadian farm prices were again in competition with other food producing countries of the world. With a lack of export demand and with outside competition, farm prices in Canada began to decline.

Packaging Material Costs: Packaging material is another large element in our cost. Following is an index of our packaging material costs per 100 pounds of food from 1949 to 1957:

	Index
1949	100
1950	107
1951	131
1952	143
1953	125
1954	132
1955	132
1956	137
1957	153

Using 1949 as 100, they have increased by 53 per cent.

The grocery business is well handled. Manufacturers, wholesalers and retailers have improved their facilities, factories, warehouses and retail stores to meet the high standards that the consuming public demands. Competition has been keen. Distribution has been adequate and handled well and economically.

The population of Canada does not consume a sufficient percentage of the farm output to have a stabilizing effect on prices paid to farmers. As the export demand for farm products rises or falls so do the prices paid to farmers rise and fall. Since export demand and farm prices reached their peak in 1951 other countries have got back into production and the demand has dimished. The prices of farm products in Canada declined accordingly.

During the same period the grocery industry has been faced with rising costs of labour including new fringe benefits to employees, freight, packaging and other materials, maintenance and other services. These increased costs have offset any decline in ingredient costs.

We understand that the Commission's view of the term price spread is reflected in its chart showing the difference between consumer retail food prices and prices paid to farmers. We have shown above that there are many operations and services required between the time grain leaves the farmer and the time it reaches the consumer's table, and that

the costs of these operations and services to the company have substantially increased from 1949 to 1957. In spite of these increases, our selling prices have only increased in this period by 35 per cent, and our profits per unit composite eight-ounce package were less in 1957 than they were in 1949.

THE CHAIRMAN: Thank you, Mr. Johnston. May I say that as a university president I am not unfamiliar with the Kellogg Foundation of which the University of Alberta has been the beneficiary on more than one occasion.

We are grateful to you for having returned the questionnaire which I understand has been delivered to us now. May I just make one comment on the chart? We do not interpret this chart as a measure of the spread; we have presented it, as I indicated yesterday, mainly because the problem has been presented to us in this way, based on the cost of living index and on the farm prices index. It does not measure the spread, although in so far as farm prices have fallen and retail prices have risen the spread must have increased during the period. I think that is about all it does, in fact, indicate.

I think we have a question or two to ask and I would ask Mr. MacKichan to start.

COMMISSIONER MacKICHAN: On page 5, the third paragraph, you mention all products sold by the company are manufactured in Canada. Would that mean sold in Canada?

MR. JOHNSTON: Sold in Canada, yes. We have a small export business from here but it is small. They are all sold and manufactured here.

COMMISSIONER MacKICHAN: Now, you mention that the principal product of the farm you use, your main ingredient is corn, which was originally imported, and you say you developed the industry in Canada

from roughly 700,000 bushels in some years up to practically 900,000 bushels. From what area do you import the additional corn?

MR. JOHNSTON: The additional we get from the United States. We have on occasion brought some from South Africa, but it is not always available there. We augment our Canadian supply from the United States.

COMMISSIONER MacKICHAN: Is the South African product suitable?

MR. JOHNSTON: Very fine, if you can get it. It is very, very good.

COMMISSIONER MacKICHAN: In the development of the growing of suitable corn in Canada do you purchase that on the open market or is it on contract?

MR. JOHNSTON: No, we buy it on the open market.

COMMISSIONER MacKICHAN: On the next page you mention the advertising costs and some measure of the advertising you have to do. Could you give us anything on that in figures in relation to cost, or what does it have to do with the spread, in other words?

MR. JOHNSON: Well, I think it is fairly well answered here. Our method of determining what we shall spend on advertising is quite a long process: each year about six months prior to the beginning of the ensuing year we begin getting our figures together. We have our Sales Department forecast what they will sell; we have our factory costs, and all the rest of it, and we endeavour to try and set sales quotas

which will give us a net amount of production in our factory. Then we determine what advertising programme, what we have to use in order to touch all age groups and all sections of the trade, and from that we determine our advertising costs. We do it in such a manner that the extra business we get will keep the cost down as well as we can. Does that answer your question?

COMMISSIONER MacKICHAN: It is some part of the cost of doing business?

MR. JOHNSTON: Yes.

COMMISSIONER MacKICHAN: I am personally interested in this one for five that has been discussed many times, and you mention the things that sometimes happen in connection with it -- people will overstock and buy more than they want just to get the one free, and it did not help out.

MR. JOHNSTON: That is right. It piled the stock up at wholesale and retail levels. There is nothing to carry it on to the consumer, and if you spend it that way you do not get it free.

COMMISSIONER MacKICHAN: Are you inclined to think that the whole five were sold at the regular wholesale price very often?

MR. JOHNSTON: No, there were reductions in price -- of course, at that time there were some thirty-eight thousand retailers in Canada and it was difficult to get them all to do it. Generally speaking the price was kept down and the reduced price did not have the effect.

COMMISSIONER MacKICHAN: On page 10 you mention

the profit and it is mentioned again in the final paragraph, and you mention the profit of a composite eight-ounce package, and they are set forth. There is some relation between this and the profits relative to investment?

MR. JOHNSTON: That are left to investment?

COMMISSIONER MacKICHAN: Yes, what would be the profits on investment, if that is a fair question?

MR. McBAIN: That is answered in the questionnaire.

COMMISSIONER MacKICHAN: Very well, thank you. On the next page you mention wages and fringe benefits and you did parenthetically mention they were quite high in your company?

MR. JOHNSTON: That is right.

COMMISSIONER MacKICHAN: What would be included in this .7437 which appears to be a fairly generous figure?

MR. JOHNSTON: Our pension, insurance, holidays, and that sort of thing.

COMMISSIONER MacKICHAN: Would this be just labour, or are executives here?

MR. JOHNSTON: It is our entire -- this is based on the labour.

COMMISSIONER MacKICHAN: Strictly on labour as the heading indicates?

MR. JOHNSTON: Yes.

COMMISSIONER MacKICHAN: On the next page you mention the cost of the basic grades. Now this is a composite figure again. In Canada, of course, as you

know, wheat is the barometer. Would wheat be a substantial item here?

MR. JOHNSTON: No, corn is our largest.

COMMISSIONER MacKICHAN: What relationship might there be between corn and wheat?

MR. JOHNSTON: It would be about five to one, I would think.

COMMISSIONER MacKICHAN: Rice is imported?

MR. JOHNSTON: Yes, rice is imported and we have a note here on that. A portion of our grain has to be imported subject to competition on world markets. We have to import grain for use in some of our specialty products and we have to have special processes to manufacture the product.

COMMISSIONER MacKICHAN: Going back to page 4, we are surely impressed with the areas in the various countries your company covers, both North America and abroad, and I assume possibly as you have described your.ownership and investment that Canada stands alone, separate and apart. It does not include any of these ---

MR. JOHNSTON: You mean in -- I just do not quite get you.

COMMISSIONER MacKICHAN: Your Canadian branch, let us call it, or your Canadian company, just includes your Canadian business?

MR. JOHNSTON: Yes.

COMMISSIONER MacKICHAN: And the small part you export?

MR. JOHNSTON: That is right.

6

COMMISSIONER MacKICHAN: Not critically at all, but it appears that at some stage the earnings must have been better than those shown here when you could expand and develop and do this very fine work on education and health and welfare? that has been carried on?

MR. JOHNSTON: Page 12 gives an idea. Does that cover what you want?

COMMISSIONER MacKICHAN: I just did not get you. Is that your answer?

MR. JOHNSTON: Well, your question, as I understand it ---

COMMISSIONER MacKICHAN: Your comment, I should say -- not an answer.

MR. JOHNSTON: Well, our level of profit has been pretty constant -- that is per unit. Our business has increased substantially over the years and of course the same level of produce, there is a larger profit, larger dividends, and everything up accordingly. Does that cover it?

COMMISSIONER MacKICHAN: Yes, thank you.

COMMISSIONER MARTIN: I would ask if you would like to explain what you mean on page 7 by "absolutely necessary"? How do you interpret that? It refers to advertising; is it in terms of trying to keep your sales at a certain level or a regular level all through the year?

MR. JOHNSTON: Well, we try to keep our business equal to our plant investment, and in formulating our plans and setting our quotas and allotting our advertising appropriation we endeavour to keep the plant to

perfection, and in doing that we think we do not spend more than is absolutely necessary to achieve that re-
2 sult.

COMMISSIONER MARTIN: Now, Mr. MacKichan asked you a question about those fringe benefits, on page 11. Is there any practical explanation that you can give as to the reasons why the increase was so high compared to the -- is much higher than it seems to be in many other corporations? Is there any particular reason for that, any explanation you can give?

THE CHAIRMAN: I think we have a question on this on the questionnaire, but the Commissioners were particularly impressed with this figure which, in fact, was much higher than other figures that have been quoted to us on fringe benefits, and I am not sure our question on the questionnaire elaborates on the particular item, so is there something you could tell us about this because we would be most grateful.

MR. McBAIN: We include in our fringe benefits any remuneration for the employee for which he does not do basic work. In other words, for which he does not produce. As a result we include the overtime bonus pay which has been at time and a half for more years than this base payroll, the holiday pay and vacation pay, unemployment insurance and workmen's compensation are treated as fringe benefits. The increase would not be too significant in those factors because they have existed through this period. Then the plant medical services and group insurance, retirement plan, which is a very generous one, for our

employees, and rest periods when employees are not working but are paid for it. We include our recreational expenses and loss on our cafeteria, and the uniforms and laundry service which we perform for the employees. They are supplied with all their work clothing and laundry and then a few miscellaneous benefits.

THE CHAIRMAN: Has the definition changed during the period? That is, have you incorporated new things in your calculations in fringe benefits?

MR. McBAIN: No, not new things in the calculation, but I can think at the moment of the cost of the clothing has increased because we have been more generous in the furnishing of our clothing. At one time the employees purchased clothing at wholesale cost and we furnished the laundry service. Now we furnish the entire clothing bill and pay the laundry service.

Our group insurance has been improved considerably and our pension plan was improved considerably in 1950.

COMMISSIONER MARTIN: You mentioned you included in that pay for overtime. That is time and a half?

MR. McBAIN: Yes, that is something for which we receive no extra benefit in production.

THE CHAIRMAN: Is there much of that?

MR. McBAIN: Overtime bonus paid amounted to 11 cents per hour in 1957.

COMMISSIONER MARTIN: And you consider that fringe benefits?

MR. McBAIN: Yes, we receive no benefit from it. We are producing the same amount of goods per hour and it is costing us that much extra at any time when we are forced to operate on a weekend; for instance, Saturday our costs are increased very materially by this item alone.

THE CHAIRMAN: So this figure is a basic wage; it is not an average wage?

MR. McBAIN: That is right, our contract rate.

COMMISSIONER WALTON: I have a question on page 6 about advertising, on your costs and unit costs. We have had some briefs presented to us in both Eastern and Western Canada by consumer groups, and at least on two occasions that I can recall it was specifically pointed to the ready-to-eat cereal industry, and we picked up a statistical figure stating that the cost on ready-to-eat cereal advertising and promotion seemed to be out of line with other food industries, and had gone up between eleven and twelve per cent. I wonder if you have any comment to make on that?

MR. JOHNSTON: I think it is very difficult to set any figure such as five per cent or two per cent that will apply to all commodities. In the food business every person in every house every day of the year and at every meal during the day is the potential user of your product; that is, everybody above three years of age. In order to keep it constantly before all of these people it needs a very concentrated programme of advertising, whereas some other commodity might only be applicable for sale to a certain portion of the public, and it is only necessary to advertise to that portion of the public; it is a much smaller job. We feel we have to cover everybody as constantly as we can. It has paid us off in production and business, and we are sure that the level of advertising is not beyond the necessary amount to keep our factory in operation.

COMMISSIONER WALTON: Would you say it was a coincidence, or do you think it was a factor, this

introduction of premiums in 1937 -- adult and juvenile premiums -- which has changed the social habits of the adult and the juvenile population in Canada from hot cereal from October to May and where now you have been able to do a level of production with each quarter? I was very interested in that.

MR. JOHNSTON: Well, in advertising there is a very substantial portion of the population who do not read ads. Children, until they reach twelve, fifteen or sixteen years of age, do not read ads, and it is difficult to get to them in a radio commercial or that type of thing. You have to use something that will attract their attention, and that is the time when you educate them to use your products. Consequently, well selected, well directed and well timed premiums are used in place of some other advertising medium, and our experience has been that it has done the job. Does that answer your question?

COMMISSIONER WALTON: Yes, I think in part, but we have had these built-in services, and seemingly increasing desire to have things ready to eat, and I wondered whether you thought your premiums which had changed your production from peak and low and from just a summer cereal, whether it happened to be a coincidence that this social change over-all -- whether Kellogg's have been responsible?

MR. JOHNSTON: No, I would not say where the premiums have been used in packages -- in popcorn, and so forth -- I would not say we were entirely the forerunner in the thing. We were one of the first.

3

COMMISSIONER WALTON: But you will admit today it is a twelve-month consumption, apparently from your sales, and as far as the public are concerned they are eating more readymade cereal all year round than they used to?

MR. JOHNSTON: That is right.

COMMISSIONER WALTON: And do you think with the increased volume -- you say one per cent of the food industry -- would you know whether, per capita, the hot cereal industry has suffered because of the cold cereal industry? Has your volume been at the expense of the hot cereal?

MR. JOHNSTON: At the expense of the . . .?

COMMISSIONER WALTON: Per capita?

MR. JOHNSTON: Well, the volume of ready-to-eat cereals has increased per capita very substantially. In our case from 1936 to 1957 we went from 22 ounces per capita up to 47 ounces per capita. However, that is not all taken away from the others, but we must remember that the population of Canada increases at the rate of a thousand people per day or more, and in addition to that we do not feel that we take business away from our competitors. We welcome the competition because all pulling together will increase the thing. The great potential for us to get increased business is from the people who do not eat enough breakfast, particularly teenagers and new people coming to the country, and that is what we look to. We are not out in a bitter fight with our competition. We probably don't like them, and would like to have

what they have, and they would like to have what we have, but we are not fighting with them.

COMMISSIONER WALTON: No, I wasn't implying that, but I do know when you increased your volume, and while we do have an increasing population, I was wondering if, to your knowledge, the hot cereal industry was also increasing their volume?

MR. JOHNSTON: I think they are. I think their business is going on -- probably not as fast as ours -- but I think they are.

MR. ROBINSON: I can add one comment, Mr. Chairman: as Mr. Johnston indicates, our greatest potential does not lie in taking business from competitors, but from people who are not using ready-to-eat cereals. According to our research, we have a condition in Canada which we call the continental breakfast -- a cup of coffee and a sweet roll. Now, we do not try to persuade the people to drink less coffee or eat less sweet rolls, but, rather, to add to that continental breakfast the juice and the ready-to-eat cereal. That is our greatest potential; it is the non-users we are most interested in.

THE CHAIRMAN: Mr. Couvrette is particularly interested in your references on page 12 to the international situation and its effect on agricultural prices. Might I ask whether your organization has done any consistent study of this problem of farm products at the international level, and its impact on prices?

MR. JOHNSTON: I don't think so. Could you

say something about that, Mr. Angood?

MR. ANGOOD: I did not hear the question.

THE CHAIRMAN: I am referring to page 12, the statement at the top, which refers to the reasons for the fall in farm prices, and it is explained in terms of the rapid build-up in production after the war in those areas in which production was curtailed during the war, and Mr. Couvrette wondered whether your organization had made any detailed study of this problem?

MR. ANGOOD: No, not a detailed study that I know of.

THE CHAIRMAN: We are studying it ourselves, but we wondered whether you had a document on it?

MR. ANGOOD: No.

THE CHAIRMAN: Thank you very much indeed, Mr. Johnston; we appreciate your presence and that of your colleagues.

Submission of

NABISCO FOODS, LIMITED

Appearances:

Mr. I. M. Pollock	President
Mr. G. J. Roe	Assistant Treasurer

THE CHAIRMAN: The second brief this morning is from Nabisco Foods, Limited. Is Mr. Pollock here?

MR. POLLOCK: Yes, sir.

THE CHAIRMAN: We normally take a break about half way through the morning, but I think perhaps we might read your statement into the record, and then take a break before the questions.

MR. POLLOCK: That will be fine.

THE CHAIRMAN: You have Mr. Roe, your Assistant Treasurer, with you?

MR. POLLOCK: Yes, our assistant treasurer from Niagara Falls.

Mr. Chairman and Members of the Commission, my name is I. M. Pollock, and I am President of Nabisco Foods Limited, and my office is at 77 York Street, Toronto, and 64 Lewis Avenue, Niagara Falls, Ontario, the home office of the company.

I appreciate this opportunity to appear before this Commission and contribute whatever I may to the subject of your inquiry.

I shall try in this brief to give you certain background information concerning the company,

which may be of help to the Commission.

Our company was incorporated in Niagara Falls, Ontario, in 1904 and known as the Canadian Shredded Wheat Company. During the time from its inception to 1938 Shredded Wheat was the only product produced. This product was produced by a very unique and skilful process of shredding the whole wheat kernel and forming into a biscuit shape. There was no by-product as the whole grain was used, in fact the finished shredded wheat biscuit contains less than 50 per cent of the moisture content of natural wheat. Shredded wheat has no flavouring of any kind, not even salt, it being the natural whole wheat.

Improvements are being made in the manufacturing operations.

Shredded wheat originally was produced on reel type ovens, which was a slow and costly operation. These ovens operate on the principle of a ferris wheel, such as you see at country fairs. As it revolves over and around the heat, the tray stops at the oven mouth for a moment, the baked biscuits are removed and the next tray placed in position. The labour involved in the operation of the oven, the carrying of the biscuits to it, and the baked biscuits from it is obvious. These ovens were replaced approximately twenty years ago with fully automatic ovens that were designed specifically to bake this product. This has resulted in a more uniform product where quality can be better controlled.

It was felt that there was a need for a

flavoured shredded wheat and in 1938 the company developed Shreddies and introduced them to the Canadian market. This product, similar in manufacture to the whole grain shredded wheat, is flavoured with salt, malt and sugar. This cereal product has proved very successful and very well accepted by the consumer and is now one of our major products.

In 1952 we developed our third cereal product, Rice Flakes, which now has national distribution.

In 1956 we introduced to the Canadian market, Nabisco 100 per cent Bran. We also market an Assorted 8-Pack which consists of 8 individual servings of our fo four cereal varieties. This completes our line of cereals.

In 1954 the company purchased the Ross-Miller Biscuit Company of Napanee, Ontario, who produced pet and animal foods. In this plant we are now producing and distributing throughout Canada the very well known Milk Bone line of dry dog food.

In 1955 we began importing one-pound loose pack of Dromedary dates directly from Basrah, Iraq, for sale in the Canadian market. These are distributed along with cereals and pet foods through our regular customers.

With the development and introduction of these new products mentioned above it became quite evident that the name of the Canadian Shredded Wheat Company was no longer descriptive of our line of products and as a result in 1954 the company name was changed to Nabisco Foods Limited.

In our business the key to low cost manufacturing is volume production. Ready to eat cereals move out of the stores in what is commonly known as planned purchasing rather than impulse buying after Mrs. Consumer has arrived at the store. This means that she must be pre-sold through continued advertising and promotion.

This is necessary to maintain volume at a level where manufacturing unit costs are kept as low as possible.

Authorities are in agreement that both adults and children neglect breakfast more than any other meal of the day. It is our company's firm belief that through continuous advertising and use of various premiums, package inserts, promotions, etc., far more people are persuaded and encouraged to eat a serving of one of our cereals with milk and sugar at the beginning of the day. Particularly we do believe that in many, many instances children eat a cereal with milk for breakfast as a result of the interest created by the premium promotion carried by the cereal. One only has to note the number of children selecting the cereal on the grocery shelf to know this and we must conclude that in many cases is a great help to the mother in seeing that her child has a nourishing breakfast.

We are continually conducting research and experiments on processing and packaging, materials handling, development of new products and product lines and other problems of the cereal industry in an

effort to provide highest quality at fair prices.

The savings resulting from increased efficiency will be passed along to the consumer in the form of better products at lower prices. In this way we hope to increase our sales volume, utilize a greater share of the agricultural products, and thus improve our dollar profits. This is how the competitive free enterprise system operates.

Our average labour costs have increased from \$1.11 per hour in 1949 to \$1.74 per hour in 1957, an increase of 57 per cent. The prices of our finished goods in the meantime have increased 45 per cent.

It may interest you to know how our dollar expenditures compare now with what they were in 1949, as shown below.

	1949	1957	Percentage of Increase
Paid to farmers and suppliers of farm products	553,349	738,573	34%
Paid to employees	432,938	834,968	93%
Paid as taxes	58,722	230,501	293%

As to distribution expenses, freight costs have increased approximately 73 per cent.

Where raw materials costs do drop to the extent that the saving can be passed on to the consumer, and the drop is not offset by increases in other costs, we do reduce prices. We have in the past and shall continue to do so. We believe there is an advantage in reducing prices as it gives the consumer a lower unit cost and this tends to increase volume which can help a manufacturer

competitively.

We have included herewith charts that describe graphically some of the points we have covered in this brief.

This concludes my statement, Mr. Chairman and gentlemen; thank you very much.

We have furnished you with specific information as requested.

Realizing that I do not have all the answers I have with me Mr. John Roe, Assistant Treasurer, and we have tried to prepare ourselves to answer any questions you may wish to ask. If we do not have the answers, we will get them for you.

THE CHAIRMAN: Thank you Mr. Pollock. We will now break off for about 10 minutes.

--- A short recess.

--- The Commission resumed.

THE CHAIRMAN: We would like to ask you a few questions, Mr. Pollock. Dr. Drummond?

COMMISSIONER DRUMMOND: There are only one or two questions I have, Mr. Chairman. I was interested in the developments your firm has followed. You started out with a single product, Shredded Wheat, and by degrees you introduced several others?

MR. POLLOCK: Yes.

COMMISSIONER DRUMMOND: I am interested in the economic reason for doing this. I can imagine one or two possible reasons why you were doing that. I can imagine, for example, if you have three or four or five different things it is liable to spread the risk. I can imagine it is a matter of getting more fixed employment. I can imagine it is a possible way of reducing your unit sum cost. Would you care to enlarge on that?

MR. POLLOCK: I think what you have said is probably correct, Dr. Drummond. I think the reason that we have increased our products was to improve our share of the market, because that is the way to increase business, and to get increased interest by the consumer.

I think possibly in the last 10 years there have been about 17 new ready-to-eat cereals came on

to the market, close to 25 per cent of the total.

COMMISSIONER DRUMMOND: I am interested in this business of continuously producing new products, whether it is your firm or any other firm. I am wondering what happens to the old products once the new ones are developed; whether you continue to keep the old and therefore add to the total price of the products or do you replace the old with the new?

MR. POLLOCK: That is pretty well determined by the consumer. We will continue with a product as long as we can. Usually the older products to some degree are squeezed by new products coming on, but it does increase the total market.

COMMISSIONER DRUMMOND: It seems to me, if you continue to add to the total number of products that you thereby are being forced to do more and more advertising or promotion in order to sell the necessary amount of each of these products.

MR. POLLOCK: That could possibly be so, although I do think that in new advertising there is some of our family advertising, namely, Nabisco cereals. We, to some degree, advertise family cereals. When you have a new product you do have to spend more to introduce it rather than the old product, but you can do some family advertising with all of the products you have.

COMMISSIONER DRUMMOND: Does your experience indicate there are certain consumers who will take -- let us say -- Shredded Wheat more or less continually and certain others who will take "Shreddies" and

certain other products such as Bran.

MR. POLLOCK: Yes. There is I think one thing peculiar to the cereal industry more so than other industries. There is less volume of products than I think in any other food products on the grocery shelves.

It is not unusual to see a housewife shopping in a store, and possibly having three or four different manufactured cereals at once, and I think you will find the same thing in the home in pantry shelves.

There is very little loyalty, and I think the reason for that is her family wants to try different cereals and different manufacturers.

COMMISSIONER DRUMMOND: According to the official records, the per capita consumption of cereals generally has been declining in recent years. Is that true for all your particular commodities?

MR. POLLOCK: Yes, I think it is. I think possibly one explanation may be, that when we take into consideration our population; immigration forms a great deal of our population, and the people from European countries are not familiar with ready-to-cereals. I think they have to be in the country for a very long time, and possibly the second generation before they will become a customer. We do not benefit from that immigration. That possibly has affected the per capita consumption.

COMMISSIONER DRUMMOND: What I was wondering about is this: If there is a tendency for the consumer generally to eat less cereals, and more of

something else, andmaybe this means that you are put in the position where you have to make continuously greater effort to sell as much of your products.

MR. POLLOCK: I think we do have to make a greater effort, but I think it is more that people have a tendency to neglect the breakfast and skip it. I think that is a great reason for that.

COMMISSIONER DRUMMOND: They are not like me. I pay special attention to breakfast.

MR. POLLOCK: I do too, sir.

COMMISSIONER DRUMMOND: I am interested in one other point. I think it is on page 4. In your table you say you paid farmers and suppliers over this period 1949 to 1957 increased payments of 34 per cent. What commodities do you actually get from farmers?

MR. POLLOCK: I will have Mr. Roe answer that question.

MR. ROE: Wheat is largely from farmers.

MR. POLLOCK: There has been a change. We have been using more sugar since 1949 in the production of "Shreddies". Shredded Wheat does not have sugar at all.

MR. ROE: Changes in product.

COMMISSIONER DRUMMOND: What I am thinking of is this: Our chart indicates that in general farm prices have been going down during this period, and yet your table indicates your farm expenditures have been going up.

MR. POLLOCK: Well, this is farmers and

D.5

suppliers. I must be clear on that, for cartons and all supplies.

COMMISSIONER DRUMMOND: I see.

THE CHAIRMAN: This is the total payment so that volume is involved.

MR. ROE: That is right.

MR. POLLOCK: Yes.

COMMISSIONER COUVRETTE: Is that for a comparable amount of business?

MR. POLLOCK: No.

COMMISSIONER KIDD: On page 2 you say: "It was felt that there was a need for a flavoured Shredded Wheat." How did you arrive at that conclusion?

MR. POLLOCK: Well, Shredded Wheat was not flavoured at all, and we have had many inquiries as to why Shredded Wheat was not flavoured. They would like something flavoured, and just did not like the natural wheat. We felt there was an opportunity for us to increase our share of the business, and we brought out a whole wheat product that was flavoured.

COMMISSIONER DRUMMOND: One other question, dealing with the name"Nabisco". Is there a derivation of that name "Nabisco"?

MR. POLLOCK: Yes, there is. Back in 1934, I think it was, we started to put the Nabisco identification. It was just called Shredded Wheat before that. We then put Nabisco on, "Nabisco Shredded Wheat" and from then until 1954, for 20 years it was Nabisco Shredded Wheat, and it was still under

the name of the Shredded Wheat company. We discussed it at great length as to what name we should use, and we decided Nabisco was the best. It had been identified with that product.

COMMISSIONER KIDD: You mentioned the situation became favourable to reduce prices. Would you give us some examples of price reductions?

MR. POLLOCK: Yes. In 1949, in that period when the sales tax was taken off Shredded Wheat, we immediately reduced the price of Shredded Wheat by 25 cents a case, which was about the amount of the tax. We reduced our price, passed it on to the consumer, and it resulted in about a one-cent a package less retail price.

THE CHAIRMAN: As the members of the Commission have indicated, we have heard more than once from the consumers about the advertising expenses in the breakfast cereal industry. However, I think we understand your answer to this, and we do not see much point in pursuing it any further unless we can get further clarification on it.

I don't think there are any other questions, Mr. Pollock. Thank you, and thank Mr. Roe for coming. We appreciate the time you have spent.

MR. POLLOCK: Thank you, very much.

Submission of

BURNS AND COMPANY, LIMITED

Appearances:

Mr. R.S. Munn	President
Mr. G.A. Knechtel	Treasurer

THE CHAIRMAN: The next brief is on behalf of Burns and Company. We have with us Mr. Munn, the President and Mr. Knechtel, the Treasurer.

Mr. Munn, this is the first submission we have had on the meat processing industry. Would it inconvenience you if it happened our questioning ran over into the afternoon?

MR. MUNN: I am at your service all day, Mr. Chairman.

THE CHAIRMAN: Yes. We will see how it develops. It is possible we may have to break off and complete it in the afternoon. We do not want to hurry it.

MR. MUNN: No.

THE CHAIRMAN: Would you like to proceed?

MR. MUNN: Thank you, Mr. Chairman.

We have replied to the Commission's recent request for information concerning Burns and Company, Limited and its operations. The Commission also asked for opinions regarding many phases of the food industry and we trust that the views we have submitted

will be helpful. Should the Commission wish further information bearing upon any of the matters referred to in its questionnaire, we will be pleased to assist to the best of our ability.

Before dealing with the matter of prices and price spreads, we want to say something about the meat packing industry.

In a number of important respects, meat packing operations differ from the manufacture of more durable types of consumer goods. Meat is highly perishable and must be moved into consumption promptly to avoid deterioration or spilage. The packer has little control over either the quality or quantity of his main raw material - livestock - which cannot be conveniently stock-piled like steel, wheat or other such products. It must be appraised, paid for in cash, converted into products which appear to have a ready market and then sold for what it will bring on a highly competitive market, or, if absolutely necessary, held in cold storage for future sale. It required a large capital investment in buildings and equipment to handle and process livestock marketings at their peak, and because marketings vary greatly from one season to another, these facilities are not always fully used. The packer undertakes to buy all livestock that come to market whether or not there is a ready outlet for the particular type or quality of meat.

The profit of the industry in relation to sales volume is very small, probably the smallest of

any industry, and only volume and rapid turnover allows the packer to live under such an extremely small margin, a margin which has little effect upon the level of either livestock or meat prices. The industry, therefore, serves both the producer and consumer efficiently and at a minimum cost.

The Commission has requested and has been given information regarding the pricing process. We wish to deal with this subject at greater length.

When the meat packer undertakes to purchase livestock he has no assurance that the finished meat products can be sold profitably. As a guide to what he can afford to pay for livestock, he has knowledge of the current market value of meat products and endeavours to buy on that basis allowing for the cost of processing. The price actually paid for livestock is, of course, influenced by competition from other packers, commercial feeders, farmers and also export buyers.

Having purchased and processed the livestock, the packer carefully figures the cost of the meat products derived from it and after adding a small margin for profit arrives at a price to which he feels he is entitled. When it comes to make a sale, however, the costing process may prove to be nothing more than an exercise. The packer is obliged, in order to stay in business, to sell at the market price and the market price is the price at which buyer and seller agree to do business. The buyer in many instances is a large chain organization that

has important purchasing power and is at no disadvantage in dealing with the packer. The ultimate decision regarding prices, however, in our opinion rests with the consumer, who has a large number of food products to choose from. The demand for any product on the part of the consumer is closely associated with price. The large increase in the consumption of poultry over the past few years is evidence of this, as is the current interest in pork products because of lower prices compared to other red meats. Also the trend to greater use of margarine as a substitute for butter because of its comparatively low price.

The Commission has asked for our opinion regarding competition in food industries and its relation to prices at the producer and retail level. We cannot speak with any authority about other food industries or beyond the wholesale level in the meat industry.

Reference has already been made to competition as far as the purchase of livestock is concerned. The present comparatively high level of cattle prices is due to competition between the packer, commercial feeder and export buyer for the available supply. Competition is most severe in the sale of fresh meats because they are highly perishable and there are so many in the business. The larger packer has to compete not only with smaller packers, who also operate under Federal Government inspection, but with others who do not; with small slaughterers that have little capital

investment and who pay much lower wages, and even with the producer that slaughters on the farm. It is evident that fresh meats can carry only a relatively small part of the overhead, and only efficient operation and the better utilization of by-products enables the packer with federal inspection to be successful. To offer a full line of processed products on the market requires heavy capital investment in buildings and equipment. Normally, processed meats return a better margin, but the over-all profit, varying from .4 per cent to .8 per cent of the sales dollar, indicates stiff competition within the industry.

There is also the competition from other foods to contend with. Strong competition in the purchase of livestock and also in the sale of meat, contributes to higher prices at the producer level and lower at the wholesale.

We will now endeavour to deal with the all-important matter of price spreads.

It is difficult to assist the Commission with conclusive evidence regarding the spread that has existed over the past nine years between prices paid to the producers and the selling prices of the meat packer to the wholesale and retail trade.

The packer's raw material is mostly live-stock which is broken down and processed into a great variety of products, such as fresh, cured, smoked, cooked and canned meats, as well as many by-products.

Statistics supplied by our company to the Commission, however, indicate that the distribution of the sales dollar has been fairly consistent. The producer has received from 77.8 per cent to 82.6 per cent -- the low figure in 1956, the high in 1951. It is agreed, however, that the price level has an important effect upon these percentages. Employee earnings, including pension and welfare, have ranged from 10 per cent in 1949, 1950 and 1951, to a high of 12.9 per cent in 1955, and 12.7 per cent in the most recent year.

Graph 1 accompanying this brief shows that plant labour rates and fringe benefits, reflecting the latest adjustment into 1959, have increased

86 per cent since 1949. Increase in productivity resulting chiefly from mechanization and automation is estimated at 21 per cent in the corresponding period. Wages and salaries paid to other employees have increased proportionately. It is apparent that part of the increased spread in prices is attributable to the labour factor. Other important items are materials, containers and supplies ranging from 2.5 per cent to 4.4 per cent of the sales dollar with the low in 1950, the high in 1956, with 4.1 per cent for the year 1957. The reason for the increase is twofold, higher costs and the greater volume of supplies used.

The trend towards pre-packaging of meats at the packer level for self-service stores, during the past few years, has contributed to an increasing price spread. From 1949 to 1957, the increase in cost of packaging materials has risen by some 49 per cent per pound of product sold.

While the cost of packaging has increased considerably over the nine years under review, some of the increase has been partially offset by economies in the use of a different type of package of less costly design. In a number of instances it has also been found that a lighter board is of sufficient strength and is cheaper than that formerly used, thus assisting in the control of packaging costs. Pre-packaging has, in our opinion, increased the consumption of meat, to the benefit of the producer, and to the convenience of the consumer.

Other costs such as promotion expense, depreciation, interest and corporation tax have changed very little over the years in terms of percentage of the sales dollar. Net income from packing house operations has varied .4 per cent to .8 per cent of sales and was .6 per cent in 1957. This profit cannot be considered an important factor in the price spread. Corporation tax has been about the same as net income, amounting to from .4 per cent to .7 per cent of sales for the years under review.

While it is difficult to ascertain the actual price spread in the case of all meat products, we do submit the attached graph No. 2 indicating the average cost by months of good steers, up to 1,000 pounds, on the Toronto market compared to the average wholesale price of commercial steer beef on the same market for the past nine years. This information has been obtained from the Livestock and Animal Products Statistics, 1957, issued by the Dominion Bureau of Statistics, Agricultural Division, and shows little change in spread over the nine years. No allowance has been made for changes in the value of by-products, but the trend has been downward. Another graph, No. 3, compares the trend over the past six years of the average cost, by months, of B-1 hogs dressed at Toronto, and the prices realized by our company for pork in carload lots on the same market.

We conclude this brief with some statistics that concern our operation and which we believe point

up the fact that there has been remarkably little change in the price spread in the products (in total) handled by our company in spite of increases in labour and packaging costs.

By dividing total edible volume into the total cost of product purchased, and also sold by the company, we arrive at the average cost per pound; the average selling price per pound and the difference or gross spread. We have then shown the cost of employees earnings, packaging, other expense and net profit on a per pound basis.

				Distribution of Gross Spreads to:			
Year	Selling Price	Cost	Gross Spread	Employees	Packaging	Other	Net Profit
1949	39.25	32.02	7.23	3.90	1.06	1.97	.30
1950	41.79	34.27	7.52	4.20	1.04	1.93	.35
1951	50.41	41.65	8.76	5.05	1.33	2.18	.20
1952	40.64	32.48	8.16	4.67	1.47	1.78	.24
1953	38.15	30.18	7.97	4.64	1.29	1.74	.30
1954	38.00	30.00	8.00	4.78	1.41	1.68	.13
1955	34.41	26.84	7.57	4.44	1.39	1.48	.26
1956	35.98	27.99	7.99	4.62	1.59	1.50	.28
1957	38.91	30.39	8.52	4.96	1.58	1.74	.24

The trend in cost and selling prices and the spread between the two is perhaps better illustrated in the following graph No. 4.

It does not indicate the actual spread between prices paid to the producer and selling prices to the retailer, but it does reflect the spread as it concerns Burns and Company, Limited operations.

Graph No. 5 is the one forwarded to us by the Price Spreads Commission and deals with all food prices. Graph No. 6 indicates the trend of costs and selling prices of our company over the same period based on 1949 at 100 index.

THE CHAIRMAN: Thank you, Mr. Munn. Mr. Drummond would you proceed, please?

COMMISSIONER DRUMMOND: Yes. I would like to ask you a few questions based directly on the brief, and a few that are perhaps indirectly related to it. On page 2, the second paragraph from the bottom, you state there that the price actually paid for livestock is influenced by competition from other packers, commercial feeders, farmers and also export buyers. My question is would that statement not be much more true in respect to cattle than of hogs?

MR. MUNN: Quite definitely.

COMMISSIONER DRUMMOND: You are thinking of cattle there, are you?

MR. MUNN: I would say cattle and calves, yes.

COMMISSIONER DRUMMOND: Hogs are not bought by either farmers or feeders and so forth in the way cattle are?

MR. MUNN: That is correct.

COMMISSIONER DRUMMOND: On the following page, page 3, you provide some illustrations of substitution of certain commodities for certain others, this is the case of a very pronounced increase in the consumption of poultry and increase in the use of margerine and

so forth indicating the effect of competition on consumption. My question is, the cases that you mention here seem to me to be special in this sense that the extent of a price drop has been so considerable that it was bound to change the amounts of the items concerned, would you agree with that?

MR. MUNN: I think my intention is to point out the association with price, the consumer's choice of product with price, and there is a great consumption of poultry today because of the price, and I do not think that would exist today if it were not for price.

COMMISSIONER DRUMMOND: I quite agree, but my whole point is, that the extent of the price drop in the case of poultry, for instance, due to the remarkable revolutionary technological developments has been really pronounced, has it not?

MR. MUNN: Very much so.

COMMISSIONER DRUMMOND: Well now, we are talking about the demand for food products generally as being highly inelastic, there seems to be general agreement that is true, even if the degree of elasticity varies from product to product. Now, my whole point is this, when we say a commodity has an inelastic trend, that is a way of saying you have to lower the price of it, the whole lot before you can sell a lot more of it, and in this case it seems to me you did manage to sell a lot more of your cattle because you were able to lower the price a whole lot.

MR. MUNN: I think it depends on the relationship of that product with others, not necessarily does the price have to go down, but if it is lower as it is than other products, for instance, beef prices have gone up materially, there is an immediate changeover from the consumption of beef to pork. It is true pork has gone down, but also beef has gone up.

COMMISSIONER DRUMMOND: That is true, but it is a degree of price reduction that moves the consumer to undertake this substitution.

MR. MUNN: I think I have to go back to the fact that it is the relationship of the price of one product to another, not necessarily because the product goes down in price, because it is lower than other products.

COMMISSIONER DRUMMOND: I think perhaps we are saying the same thing in different words, all I am saying is, if the price reduction for these commodities you mention here, poultry, beef and margerine, if it had not been possible to make a very significant price appeal you would not have had the substitution of these things for other things that you did have.

MR. MUNN: That is quite right, I agree.

COMMISSIONER DRUMMOND: That is the whole thing.

THE CHAIRMAN: On the other hand, it is your experience that within the meat group itself, even small changes in the relationship between the

price of pork products and beef products will cause a shifting?

MR. MUNN: That is happening now, it has happened in the past few weeks. Beef prices have gone up materially and pork prices have declined, and it takes just a few weeks for the consumer to be aware of the change, and they change as soon as the price changes.

COMMISSIONER DRUMMOND: I notice at the top of page 4 you state that small slaughterers who have little capital investment pay much lower wages, and on a point of information, could you give us any general indication of how much lower wages they do pay?

MR. MUNN: Well, the small -- no, I cannot, but we have packers in Canada who pay wages to the extent of -- I had better be careful when I say this, but I would assume 20 cents per hour lower than what we pay.

COMMISSIONER DRUMMOND: And your point here, I take it, is that these smaller ones have some lower costs?

MR. MUNN: When I speak of the small slaughterers I am referring to those who have nothing but a shed and they just slaughter beef and peddle it.

COMMISSIONER DRUMMOND: Well now, they certainly have lower costs in that they have less capital investment, and as you say lower wage costs, would you also not agree with this, because they

are so small and ill equipped that they are bound to be relatively inefficient processors.

MR. MUNN: Yes, in the utilization of by-products in most cases the by-products are wasted.

COMMISSIONER DRUMMOND: You point out they would have more inefficiency in the actual processing itself?

MR. MUNN: Yes, they would.

COMMISSIONER DRUMMOND: Well now, would their higher costs due to this greater inefficiency and processing not be sufficient to offset their lower costs due to lower wages and lower capital investment?

MR. MUNN: I would say not.

COMMISSIONER WALTON: They do not sell grade beef under those conditions?

MR. MUNN: No.

COMMISSIONER WALTON: Under the government inspected red brand --?

MR. MUNN: No.

COMMISSIONER WALTON: There are areas in Canada where that is not compulsory, is that right?

MR. MUNN: Yes. These small slaughterers, however, are a very large factor in the beef business.

THE CHAIRMAN: Are they generally found in the smaller rural parts?

MR. MUNN: In the cities too, there are many thousands of them.

THE CHAIRMAN: I take it your references are generally to Western Canada?

MR. MUNN: Not at all, Mr. Chairman, we operate all across Canada.

THE CHAIRMAN: Would you mind at this point telling the Commissioners where your operations are?

MR. MUNN: Our plants are, starting at the West Coast, Vancouver, Edmonton, Calgary, Prince Albert, Regina, Winnipeg, Kitchener and Montreal. Do you want the branch houses?

THE CHAIRMAN: No. What proportion of your plant investment would be in Eastern Canada, 10 per cent, 5 per cent?

MR. MUNN: Twenty per cent.

COMMISSIONER DRUMMOND: Just to clear up that one point, do I gather from your general statement that these smaller packers would have total costs which would be roughly comparable to your own?

MR. MUNN: No, we were speaking of slaughterers, shall we separate those from the small packers? When I spoke of lower costs I was speaking of small packers and then is when I said their wages would be 20 cents an hour lower than ours.

COMMISSIONER DRUMMOND: Small slaughterers?

MR. MUNN: No, small packers.

COMMISSIONER DRUMMOND: At the top of page 4 it says:

"Small slaughterers that have little capital investment and who pay much lower wages --"

MR. MUNN: I would have no record of what their wages would be, they are too small, but when I made reference to the 20 cents an hour lower, I was referring to small packers, not all of them, but some.

COMMISSIONER DRUMMOND: I was trying to figure out how their total costs compare with your costs?

MR. MUNN: Well, my answer to that is, if their overall costs were not as great as ours we would not survive.

COMMISSIONER DRUMMOND: That is why I wonder why they have been able to.

MR. MUNN: Because they are not as efficient as we are.

COMMISSIONER DRUMMOND: They are not efficient in actual operation?

MR. MUNN: That is right.

COMMISSIONER DRUMMOND: And in their ability to use by-products, but they have lower costs, you say in respect to labour and less capital investment?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: So that to some degree at any rate these lower costs tend to offset their higher costs?

MR. MUNN: That is right.

COMMISSIONER DRUMMOND: On page 6 you refer to the fact that pre-packaging has increased the consumption of meat. Are you thinking there of -- I might ask the question in this way, does this

statement apply to your home sales only, or do you mean that this applies generally?

MR. MUNN: I believe the total consumption of meat, I know the total consumption of meat in Canada on a per capita basis is growing, and I believe pre-packaging of meat has contributed to that increase. That is an opinion, and that is all it is because there is no proof for it.

COMMISSIONER MacKICHAN: In the pre-packaging would you include the consumer operations for hotels and restaurants?

MR. MUNN: Yes, I would.

COMMISSIONER MacKICHAN: Is that becoming a substantial volume, that hotel portion?

MR. MUNN: It has reached a certain point, and it does not seem to be increasing.

COMMISSIONER MacKICHAN: Where they have a banquet and they want 125 sirloin steaks, they get that?

MR. MUNN: I think eventually that business will grow into the hands of somebody between the meat packers, either a retailer or wholesaler, particularly in the larger cities.

COMMISSIONER WALTON: You do not do any pre-packaging?

MR. MUNN: No, not in our business, but other packers do. When I say we do not, we do a little, but it does not amount to very much.

COMMISSIONER DRUMMOND: Mainly pork products?

MR. MUNN: No, it is mostly beef.

COMMISSIONER DRUMMOND: I notice also near the bottom of the same page you are comparing the average cost of good steers and the wholesale price of steer beef, do you feel like good steers are the equivalent of commercial beef?

MR. MUNN: I would say that good steers cover a small proportion of red, usually 10 per cent, 20 to 25 per cent blue, and the rest commercial. This is not exact, it is merely to show the trend.

COMMISSIONER DRUMMOND: The table at the bottom of page 7, I notice that your gross spread reached its highest point in 1951,would the explanation for that be that that was a period of rising prices of inventory?

MR. MUNN: Yes. If you refer for the moment to Graph 2 you will notice the beef price was extremely high in 1951, now when those high prices for beef prevailed, there was less beef sold, and the consumption went to pork on which we have much more labour and much more packaging costs, much more processing. It seems no matter what figures you put down you have to qualify them, and actually the gross spread is evened up by higher wages to employees because of more processing, and more packaging, so we still end up with only 20 cents.

COMMISSIONER DRUMMOND: Apart from the brief proper, I would like to ask you a few question if I might. Through the period in which we are especially concerned, namely, the last 10 years, we all know this is a period of very rapid development

of Canada, and a very pronounced increase in population. It is also a fact that increased population has been very considerably concentrated in certain areas such as parts of Ontario, Vancouver and so forth. During that same period, I think it is a fact that a good deal of expansion in livestock production has been concentrated in Western Canada, and I am wondering if the combination of those two things has made it necessary to transport a larger percentage of livestock from Western Canada to central Canada, and points East, whether that has contributed in any way to your costs.

MR. MUNN: Certainly more livestock products have been transported from the West to the East. I am not so familiar with the Eastern conditions, but I assume there is not the possibility of expansion in livestock in the East as in the West, your expansion I think must be in the West. I cannot however assert that with any increased cost, not by any means exactly, but generally speaking the difference in values between the East and West is the cost of transportation and always has been.

COMMISSIONER DRUMMOND: Well, that particular cost I presume would not be incurred by a firm such as yourselves, you buy on a more or less delivery basis, is that correct?

MR. MUNN: We buy our livestock where we process it, and we have to transport it to Montreal and Toronto.

COMMISSIONER DRUMMOND: That is really

what I was getting at.

MR. MUNN: And we pay that transportation cost, and hope to get it back in the price.

COMMISSIONER DRUMMOND: What it is that that means, it seems to me, is that there must have been during these years a need for transporting a larger part of all livestock products from western to eastern Canada, and perhaps from Alberta to British Columbia.

MR. MUNN: I think there is no doubt about that.

COMMISSIONER DRUMMOND: Would it also be true that even in the Maritimes that the increase in population there was at a more rapid rate than the increase in livestock there, and that would result also in more livestock products having to be shipped down there?

MR. MUNN: I am not on very sure ground here. Let me separate again the cattle from the hogs. It is mostly beef that they ship there. It is mostly beef that is shipped from Ontario to the Maritimes. The Maritimes produce a lot of pork, although they are a deficiency area; but, I would agree that more meat is being transported across the country from the surplus areas to the deficiency areas. I can't, however, tie that up with any increase in cost except to the extent that freight rates are higher and truck rates are higher.

COMMISSIONER DRUMMOND: Would the fact that transportation per se is a cost?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: If you have to transport a larger percentage of the total article, wouldn't that tend to increase the cost?

MR. MUNN: I am in difficulty here now because there always is a difference in value between, we

will say, Toronto and Montreal on the one hand and Edmonton and Winnipeg on the other. I could cite a case this year, for example: much more beef normally would be shipped to Eastern Canada, but the markets of Eastern Canada have not had sufficient spread for us to pay the transportation costs and we have to curtail our operations accordingly. We are not assured of getting that transportation cost back.

COMMISSIONER DRUMMOND: Perhaps my question refers to the industry in general rather than that of any specific firm: perhaps that will make a difference?

MR. MUNN: Well, transportation certainly is part of costs, and transportation costs have gone up.

COMMISSIONER DRUMMOND: And the percentage of stuff that had to be moved long distances has increased?

MR. MUNN: Has increased.

COMMISSIONER DRUMMOND: During this same period, again, as we all know, in a very rapid expansion of chain and retail stores, I presume that has been accompanied by corresponding expansion in the direct purchase by them from firms such as yourselves?

MR. MUNN: They form a much greater part of our outlet today than they ever have.

COMMISSIONER DRUMMOND: You operate branch houses?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: To what extent has this reduced the volume of business that your branch

houses have had to do?

MR. MUNN: I would say our branch houses are doing somewhat less business. We are bypassing them to some extent, but that is chiefly because of better roads and better transportation. We used to have a branch house in Saskatoon; we have a small place there now, but the roads enable us to ship direct from Prince Albert to the trade in that area. I think it is better roads and transportation. I think eventually branch houses will disappear.

COMMISSIONER DRUMMOND: Just because of transportation?

MR. MUNN: I hope they will, because they mean additional cost on handling the produce again.

COMMISSIONER DRUMMOND: When the chains buy do they not prefer to buy directly from your headquarters, shall we say, rather than from your branches?

MR. MUNN: So many things enter into that; our branch houses sell to chain stores.

COMMISSIONER DRUMMOND: They do?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: You are not inclined to feel that this expanded development of the chains has really affected the volume of business of the branch houses?

MR. MUNN: Not materially, no.

COMMISSIONER DRUMMOND: You also have maintained, I believe, shall we call it a fleet of salesmen visiting retail establishments?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: To what extent has the number of these been affected or reduced?

MR. MUNN: Well, it has been reduced, but not to any great extent. As far as our western Canadian operations are concerned, in areas like Manitoba, Saskatchewan and Alberta there is still a very large number of independent merchants in the country areas, and there has been very little change. It is in the cities where there would be some reduction, but, as far as saving expense is concerned, it is not very helpful because we have to have experienced men, better men, to deal with the chains.

COMMISSIONER DRUMMOND: But would it be true that these people I call your travelling salesmen -- that you have had to spread the cost of paying them, maintaining them, over less product?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: And, therefore, the overhead cost, if you like to call it that, of maintaining them, on a per unit basis has actually gone up?

MR. MUNN: Yes, I think it has, particularly in Saskatchewan, for example, where the rural population is much less and the chain stores already in the cities have attracted people from fifty, sixty miles, and perhaps greater distances than that to those cities, so that there is less shopping in the rural areas.

COMMISSIONER DRUMMOND: To what extent are your products sold on a brand basis? How many products have you got special brands for?

MR. MUNN: All processed products are branded,

5

and even fresh beef, if it is graded, carries our brand too. For the most part, lamb does not, and fresh pork products do not.

COMMISSIONER DRUMMOND: You say fresh beef actually carries your brand too?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: How do you reconcile the maintenance of your brand of beef with Red, Blue Brand, and so forth?

MR. MUNN: It carries a Burns Shamrock Brand as well as the Government's.

COMMISSIONER DRUMMOND: I presume the expanding development of the chain stores has resulted in them wanting to have their own brands: to what extent has their desire to maintain brands fitted with your desire to sell on a brand basis?

MR. MUNN: If they wish us to put our product under their brand, we would do it. We have no policy whereby we would refuse to do that. Some of the organizations have their own brands, and some do not. They seem to have different policies. We would prefer to sell our own brands, but we would not lose business by insisting on it.

COMMISSIONER KIDD: It has been said that retailers sometimes find it advantageous to deal with or support small packers: could you comment on the effect that this might have on the price paid to the producer? Would there be any downward pressure as a
2 result of this, or is it much of a factor?

MR. MUNN: No, I don't think it would be a

factor at all.

COMMISSIONER KIDD: Because their proportion of the market is not great?

MR. MUNN: No, I think they have to buy their livestock; that is their raw material, and they have to buy in competition with all the other packers and buyers.

COMMISSIONER KIDD: Well, the advantage to the buyer from the small packer would be that he was getting the product at a lesser price?

MR. MUNN: I don't know that I quite understand. Were you speaking of the consumer buying?

COMMISSIONER KIDD: No, I am thinking in terms of the retailer -- the chain store, for example?

MR. MUNN: Could he buy cheaper from a small packer?

COMMISSIONER KIDD: Yes.

MR. MUNN: Yes.

COMMISSIONER KIDD: And the reason you have already given us, I assume, when you say their costs are lower?

MR. MUNN: Yes, I would say that they are. Of course, I have already said that their inefficiency makes up for their lower costs, but I think that the large packers, who have shareholders and hope to pay dividends, and who have a big capital investment and have pension plans and that sort of thing, I would say, ultimately their costs are greater.

COMMISSIONER KIDD: I take it at the top paragraph on page 3 that the two important factors now in the price that you receive for your product are the

chain stores and your export market?

MR. MUNN: The export market is not very important.

COMMISSIONER KIDD: The chain store is more important to you?

MR. MUNN: Yes. I would estimate the export market is less than ten per cent.

COMMISSIONER KIDD: You say that the chain stores have no disadvantage to the packer, and, thinking of terms of the complaints of the producer, that his share has fallen, would you say that the packer is at no disadvantage in dealing with the producer?

MR. MUNN: I don't think that the producer is at any disadvantage when there is all the competition that exists at present.

COMMISSIONER KIDD: You wouldn't think that the impact of chain store buying creates a downward pressure on what the producer receives?

MR. MUNN: No, I don't think so.

COMMISSIONER KIDD: You mentioned that pre-packaging has increased the consumption of meat: if the consumption has increased, why wouldn't the increased consumption in some way offset some of the rising cost factors that you mentioned?

MR. MUNN: Well, I think the reason that the spread is not any greater than it is is because that increased consumption has had its effect on the increased cost of labour and supplying, and I think our table, which is No. 6, indicates that. In other words, it has offset to some extent the increase that would be

there otherwise.

THE CHAIRMAN: This is the implication of the charts which you have prepared; in relation, at least, to the operations of your firm, there has been no significant increase in the spread between your buying in price and your selling out price?

MR. MUNN: Well, Mr. Chairman, the figures that we have given there are the closest that we can come to our operations, and the figures themselves are true enough to the extent that we have taken all of the product that we have handled and divided it into what we have paid for it, and this is what we have come up with. We have done the same with what was sold. But, in the product we have purchased, that includes not only livestock but partially process product. In what we have sold, it includes some wholesale sales as well as retail. So, to that extent, it does not indicate the true spread between the producer and the consumer or the retailer, and, unfortunately, we haven't figures that will give us that. In other words, we buy a hog here and we sell sliced bacon there, and we cannot tell you, except by test, what that spread is.

THE CHAIRMAN: We are on our staff working on this problem and we will see what we can come up with eventually. We know how difficult it is but nevertheless it does seem to me that the indications in your chart are that there has been no significant spread within the processing fields.

MR. MUNN: Yes.

THE CHAIRMAN: Let us assume that is so.

MR. MUNN: Yes.

THE CHAIRMAN: Let us assume at the same time that there has been a widening of the spread between the producer and consumer, which I think is also correct?

MR. MUNN: Yes.

THE CHAIRMAN: Then we reach the conclusion that the widening of the spread has been between the processor and the consumer; right?

MR. MUNN: We must assume that, Mr.Chairman.

THE CHAIRMAN: Now, I don't know whether you feel competent or willing to say what goes on in the later distribution of your product, but if these assumptions are correct, and these conclusions we have arrived at are correct, have you any knowledge of changes in the retailing end particularly which contributed to the widening of the spread there? I know it is not your field and an answer that you don't know will be perfectly satisfactory.

MR. MUNN: Well, Mr. Chairman, it would seem by the graph you have up on the board there -- I am only assuming this because the spread in our

industry appears to have changed very little and in our plant it certainly has not increased to any extent, that it must be after the product leaves us. I don't think I would like to go any further than that because you will be hearing from the retailer. I would rather you would be the judge.

THE CHAIRMAN: Would it be fair to ask whether in your relations with the buyer of your products you have detected any changes bearing on your own operations which may have an effect on the spread after the product leaves you? Have you had to adjust your selling practices to changes occurring on the retail side? Has it infringed on you in this way?

MR. MUNN: Very much so, Mr. Chairman.

THE CHAIRMAN: Would it be fair to ask you to elaborate on this? That has come within your own experience.

MR. MUNN: Well, Mr. Chairman, instead of dealing with a very large number of independent retailers who have limited buying power, we are now dealing with very large chain organizations. I think it is only natural that they, having such large buying power, are more difficult for us to deal with, more difficult for us to get the price we think we should get, and I think that has kept our earnings in the industry down. Fortunately the volume goes up from year to year and it helps to offset that.

THE CHAIRMAN: These large organizations which are then buying in larger quantities, this, I think, follows from what you have said, instead of dealing

with a lot of little people you are now dealing mainly with a few larger buyers. Are there any economies in selling to you?

MR. MUNN: No, Mr. Chairman, there are not for the reason that there are still a large number of small retailers, independents. I mentioned earlier that there has been some reduction in our sales force but we have to have well qualified men to deal with the chain store organizations. You have to have a better man than you would for the regular trade.

COMMISSIONER WALTON: Just two or three questions. I was wondering on the grading in your plants, you have inspectors there all the time. Does the packer pay those federal inspectors or is that paid by the Dominion Government?

MR. MUNN: They are all paid by the Government. That applies to the inspectors working under the Bureau of Animals Branch and also those who grade the beef. There are two types of inspectors. The Government pays all of them. We pay only if they work overtime.

COMMISSIONER WALTON: Graded meat does cost more than ungraded meat?

MR. MUNN: To the extent that the wages of those inspectors have to be paid.

COMMISSIONER WALTON: Just following up, I think, something Mr.Kidd said. I am on page 3. You refer to chain organizations and you say:

"The buyer in many instances is a large chain organization that has important purchasing power

4

and is at no disadvantage in dealing with the packer."

Conversely then the packer can sometimes be at a disadvantage with these large purchasing powers ---

MR. MUNN: I think that is so.

COMMISSIONER WALTON: Of bargaining power?

MR. MUNN: Yes. I think that is natural. I think it is easy to maintain your sales when you are dealing with a large number of sales than when you are dealing with a lesser number. If you were to deal with only a few your business could suffer if you lost it to the other packers.

COMMISSIONER WALTON: You do not feel the impact of, shall we say, the sharp bargaining where pressure is on you because of the volume of the chain is reflected down for what you can pay to the producer, which naturally in turn reduces what you can afford to pay?

MR. MUNN: I don't really think so. I have thought about that very carefully because of the questionnaire that the Commission sent out, but I think as long as there is that competition at the producer level, I don't think a chain store can affect the producer. That is an opinion.

COMMISSIONER WALTON: Yes, I appreciate that.

THE CHAIRMAN: How do you buy your hogs or livestock generally? Refer to hogs, if you wish, rather than beef.

MR. MUNN: Well, that varies across the country but generally speaking we buy most of our livestock

at auction. In Alberta, for example, all hogs and cattle are sold at open auction. Most cattle throughout the country are sold at open auction. Shipment of cattle directly to plants is dying out all the time. In Ontario there is a marketing agency, of course. They have -- is it all right if I use the word "monopoly"? -- they have a monopoly.

THE CHAIRMAN: It is your word.

MR. MUNN: Yes. In other words, all of the hogs -- that is the only exception I think. I think all other hogs are sold at auction. However, they do ship directly to the plants.

THE CHAIRMAN: There is direct shipment of hogs in Alberta?

MR. MUNN: Considerably.

THE CHAIRMAN: Has there been any change in this recently?

MR. MUNN: No. It has not increased and it has not decreased. Just a moment, Mr Chairman. You said has there been any change recently?

THE CHAIRMAN: Yes.

MR. MUNN: Not in the number of hogs going directly to the plants except this that Co-operative organizations in Alberta have changed their method of selling. They used to contract with the packers. Now they sell at open auction. There is that change.

THE CHAIRMAN: I have heard something about this.

COMMISSIONER MacKICHAN: Just one or two questions. On this discussion between the large and

small buyers, there is the question of whether the larger buyers are very desirable customers. Packing house salesmen -- I think this is prevalent all over the territory as it is in the East, where the salesman is a collector. On his weekly rounds he has to collect for last week's sales?

MR. MUNN: That is correct.

COMMISSIONER MacKICHAN: He keeps in touch with them that way?

MR. MUNN: Yes.

COMMISSIONER MacKICHAN: With a large buyer that is not true?

MR. MUNN: That is one advantage of the large chain store.

COMMISSIONER MacKICHAN: A very decided advantage?

MR. MUNN: Yes.

COMMISSIONER MacKICHAN: On Chart No. 4, what does this indicate; that there is -- what shall I choose between the two words or will I use both -- "rigidity" or "uniformity"?

MR. KNECHTEL: That is only the spread of the series. It is not an index as of '49. It is only the spread.

COMMISSIONER MacKICHAN: It has uniformity as it moves across the graph.

MR. KNECHTEL: On the top graph, unfortunately, it does not reflect in this. It does not reflect any great difference. If you want to turn to page 7, the average gross spread was 7.28. That

is the area with which we are chiefly concerned. I think it was 7.23 to a high of 8.76, and on the particular graph here it does not show any widening to any extent.

COMMISSIONER MacKICHAN: It is a reflected position?

MR. KNECHTEL: That is right. This graph which is indexed in 1949 will indicate some spread.

THE CHAIRMAN: Both Chart 4 and Chart 6, if you look very closely, indicate some slight increase.

COMMISSIONER MacKICHAN: Some slight increase.

COMMISSIONER DRUMMOND: To what extent have you found it desirable to make contracts directly with the producers for livestock?

MR. MUNN: I can't think of any that we have at all. It is not our practice. At one plant we make an advance on weanling pigs to farmers who undertake to deliver them when they are finished to us, but there is no compulsion about it. Normally we do not contract with the producers at all.

COMMISSIONER KIDD: There has been quite a bit of discussion about the impact of the large buyer. Can you tell us, are your prices uniform in any area or is there any variation?

MR. MUNN: Oh, no, they may be uniform for one day or two days.

COMMISSIONER KIDD: I am thinking of uniform to each buyer.

MR. MUNN: To all buyers?

COMMISSIONER KIDD: Yes.

MR. MUNN: Oh, the larger buyers would buy cheaper.

COMMISSIONER KIDD: They have that advantage?

MR. MUNN: Oh, yes. Essentially, the more a man buys, I would say, the cheaper he would buy.

THE CHAIRMAN: Do you give any quantity discounts?

MR. MUNN: Not as such, no. In our selling to the larger buyers we have lower prices.

COMMISSIONER DRUMMOND: It does cost you less to make one large sale than a whole lot of small ones?

MR. MUNN: Yes. Mind you, we have to make a very large number of deliveries.

COMMISSIONER DRUMMOND: I have one or two further questions. I was going to ask you about the seasonality or seasonal variation in your plant operations. Has there been any decrease in that in recent years?

MR. MUNN: Yes, a big improvement.

COMMISSIONER DRUMMOND: Is that so?

MR. MUNN: Yes. Mind you, summer still is the season when our staff take their holidays and we pretty well arrange these vacations so that we have our staff remaining fairly steady throughout the year. There is no seasonal employment or unemployment as there used to be.

COMMISSIONER DRUMMOND: Does that have a significant cost reduction effect?

MR. MUNN: It would help, yes. If you have

to take new people into the organization they have to be trained to some extent, quite expensive.

COMMISSIONER DRUMMOND: I was going to ask you one thing. You mentioned a while ago about the development in transportation and the possible effect in the use of your branch houses. Have there been any other technological developments such as refrigeration and so forth which have also had the same general effect?

MR. MUNN: Well, of course, refrigerator trucks were necessary for such transportation.

COMMISSIONER DRUMMOND: You cannot think of any other -- what we call -- technological developments in recent times?

MR. MUNN: No, I think the fact that meat -- all meat is perishable and requires rapid delivery and if there is some way to preserve meat to a great extent I think that would help. In other words, there mustn't be too great a time between when it leaves the plant and when it arrives in the retail store. That is why we have branch houses, to be protected all the way.

COMMISSIONER DRUMMOND: As a summary statement, I suppose you would say throughout this particular period you have had some cost reductions and some cost increases?

MR. MUNN: Yes.

COMMISSIONER DRUMMOND: On balance, would you say there has been substantially any change in your costs?

MR. MUNN: I think the figures we have here are a fair indication. We had an increased productivity. We have had increased wages. One offset the other. We have had increased packaging costs and some economies in packaging. We have had increased volume, which has not only helped productivity but has helped in our selling and that sort of thing.

I believe although these figures are not accurate as to the exact spread, I believe they are a fair indication of spread as it is today.

THE CHAIRMAN: I want to thank you very much, Mr. Munn, for giving us your time and for the preparation of this very fine brief. We will now adjourn to resume again at two o'clock, when the next brief will be the Canadian Labour Congress.

---Whereupon the hearing adjourned at 12.35 p.m.
to reconvene at 2.00 p.m.

--- Upon resuming at 2 o'clock p.m.

Submission of

CANADIAN LABOUR CONGRESS

Appearances:

Mr. Stanley H. Knowles   Executive Vice President

THE CHAIRMAN: The brief this afternoon is submitted on behalf of the Canadian Labour Congress and presented by Mr. Stanley Knowles.

MR. KNOWLES: Thank you, Mr. Chairman and members of the Commission. I confess that I may interpolate in one or two spots as I go along, and I hope that will not be out of order. I will be glad to answer any questions you may wish to put to me at the end.

The Canadian Labour Congress, representing over a million members and considerably larger number of Canadian consumers, is naturally very much concerned with the subject you are investigating. It is, indeed, doubly concerned: With the price the consumer pays and the price the farmer receives. In the interests of its own membership and their families, it wants to see the price the consumer pays as low as possible, consistent, of course, with proper wages and working conditions for those engaged in the food processing and retailing industries.

It is, however, scarcely less concerned that the farmer should receive the highest possible return for his skill, labour and investment. The Congress is firmly convinced that the welfare of the farmer is important not only to the farming community itself, and to the nation as a whole, but also to the industrial workers of the country. It does not for a moment subscribe to the view that workers can or should wax fat at the expense of the farmer nor the farmer at the expense of the worker. It therefore desires most earnestly that the price spread between what the farmer receives and what the consumer pays should be reduced to the narrowest possible limit consistent with equity and economic efficiency.

In this inquiry into the causes of price spreads of Canadian food products, the Canadian Labour Congress is primarily concerned with analyzing the labour cost component of the "farm marketing bill".

Perhaps I might interject at this point to emphasize what is obvious that in this brief we are concerning ourselves in the main with one point. There are ancilliary points that we will make at the end, but we recognize that you have a great many briefs being presented to you covering the whole broad aspect of the subject, and we felt there was one particular point that it was our duty to examine, and having examined to bring out. That point is in our view from studies we have made is that the labour cost component is not the cause of the increase in price spreads, and we feel that the farmers and public

generally have the right to know this, and we are going to try to present that main point to you.

The marketing bill (also commonly known as the "marketing margin", or the "marketing charge") includes payments to all agencies involved in moving food products from the farmer to the consumer. It therefore accounts for the total spread between what the farmer receives, and the retail price paid by the consumer, for all agricultural products. This spread covers, in the main, costs of local assembly of farm products, transportation, processing, wholesaling and retailing.

We are chiefly interested, naturally, in examing labour costs to determine what effect, if any, they have had on increasing price spreads. Unfortunately, statistical data are not adequate to determine, with any degree of precision, the total labour costs in the farm marketing bill. In the United States, where statistical information is much more adequate, it has been possible to determine these costs to a greater degree.

Notwithstanding the limitation of Canadian statistical data, it is nevertheless possible to assess a major portion of labour costs in the marketing bill. There is fairly adequate information on labour costs in food processing, and sufficient information on wages and salaries is available for retailing. Processing and retailing are the largest components of the farm marketing bill.

According to estimates made in the United

States, in 1956 three-fifths or 60 per cent of food marketing workers were in retailing, and about a fourth or 25 per cent in processing, with the remaining 15 per cent in local assembly, wholesaling and transportation. (United States Department of Agriculture, Farm-Retail Spreads for Food Products, pages 53-54). (Slightly more than two-fifths of those in retailing were in restaurants and other eating places). Gross margins of grocery stores made up about a third of the farm-retail spread for the market basket in 1955, and although no data are available for a precise estimate, gross margins in food processing are estimated to have accounted for another third. (ibid, page 55).

While we do not know how this compares with Canadian food marketing, it would seem reasonable to assume that the majority of food marketing workers, and a majority of labour marketing costs, are in the processing and retailing of foods. Thus by analyzing the labour costs in these two important components of the farm-retail spread on the basis of available data, it is quite possible to determine to a substantial degree the role of labour costs in the pricing of food products.

Let us examine first the role of wages and salaries in the food processing (i.e., foods and beverages) industry.

What I say about this table will be dealing with food processing industry for quite a piece, and then I switch over to retailing.

The first thing to notice (see table 1 below)

is that total wages and salaries in relation to value added by manufacture are smaller in this industry than in most manufacturing industries. (Note: since frequent use will be made of the term "value added by manufacture", its meaning and significance should be made clear at this point. The figure of value added is obtained by subtracting the cost of materials, fuel and electricity from the gross value of the finished products. That definition is on page 8 of a Dominion Bureau of Statistics book, General Review of Manufacturing Industries in Canada - 1955.

This figure represents the value added to the raw materials in the factory. Since the value added is the real or net production of the manufacturing plant, payment of salaries and wages, as well as all other operating costs and profits, must come out of it.)

I would like you to look at Table 1 which is headed "Salaries and wages as a percentage of value added by manufacture, 1955". The figures in columns 2 and 3, for the 18 industrial groups listed in column 1 are all taken from this volume which I note at the bottom of the page. The figures in column 4, of course, represent simple arithmetic on our part showing that the foods and beverages industry, the workers in that industry in 1955 received only 39.7 per cent of the value added by manufacture. You will note the percentages for the other industries and I will comment on them later.

Table 1

SALARIES AND WAGES AS A PERCENTAGE OF VALUE ADDED BY MANUFACTURE, 1955

(1) Industrial Group	(2) Salaries and Wages $	(3) Value added by manufacture $	(4) (2) over (3) %
Foods and beverages	498,786,577	1,257,652,677	39.7
Tobacco and tobacco products	29,446,891	88,652,932	33.2
Rubber products	73,774,964	187,029,017	39.4
Leather products	68,970,276	107,215,340	64.3
Textiles	187,805,044	314,533,385	59.7
Knitting mills	47,208,208	77,465,979	60.9
Clothing	196,436,479	323,644,673	60.7
Wood products	354,439,897	631,857,981	56.1
Paper products	349,777,049	867,261,587	40.3
Printing, publishing and allied in-industries	234,579,858	415,668,242	56.4
Iron and steel products	667,657,079	1,199,245,953	55.7
Transportation equipment	490,434,996	809,748,007	60.6
Non-ferrous metal products	201,109,879	590,744,048	34.0
Electrical apparatus and supplies	264,031,474	469,918,651	56.2
Non-metallic mineral products	131,006,731	301,656,877	43.4
Products of petroleum and coal	72,436,559	417,349,989	17.4
Chemicals and allied products	185,267,943	528,928,509	35.0
Miscellaneous industries	89,239,630	164,876,649	54.1

Source: D.B.S., General Review of the Manufacturing Industries of Canada, 1955.

If compared with the other sixteen major groups of the Standard Industrial Classification - the main basis of industrial classification adopted by D.B.S. in 1949 - it is seen that salaries and wages as a percentage of value added were lower in foods and beverages than in eleven other industries (twelve if miscellaneous industries are included). (See table 1). This fact is important in placing total labour costs in this industry in their proper perspective.

Next, it is important to examine carefully the relationship between salaries and wages to value added in food processing over a selected period of time. It is hardly necessary to add that there can be no validity to any claim that salaries and wages in this industry have increased price spreads unless it can be shown that they have increased relative to value added. Value added, as noted above, is the real production of the manufacturing plant from which all operating costs and profits must come. A constant rise in the proportion of salaries and wages to value added would inevitably lead to a decline in profits and/or to an increase in the prices of the processed foods.

Table 2 (below) clearly indicates that the proportion of salaries and wages to value added has been virtually constant over the period 1946 to 1955. (This period has been selected because it includes the first complete post-war year and the last year for which data are available). There

have been only very slight vacillations from year to year, with the proportion in 1955 slightly less than in 1946, and slightly less than the average for the entire period, which was 39.8 per cent. Taking the lowest proportion, or 39.2, and the highest, or 40.6, the variation is a mere 3.6 per cent for the entire period.

That is per cent rather than percentage points. You might take a look at Table 2, and see the value which the workers in the foods and beverage industries have received. It is almost constant, variations are almost without significance, and if there is any change it is to the detriment of the workers. They in 1955 received slightly less by way of percentage to that which was the case in 1946.

Table 2

SALARIES AND WAGES AS A PERCENTAGE OF VALUE ADDED IN FOODS AND BEVERAGES, 1946-1955

1946	1947	1948	1949	1950
40.0	39.7	40.6	39.9	39.2

1951	1952	1953	1954	1955
39.9	39.3	39.7	40.4	39.7

Average for period 1946 - 1955: 39.8

Source: D.B.S. General Review of the Manufacturing Industries of Canada.

These figures alone provide conclusive and indisputable proof that salaries and wages in the food processing industry have not been in any way responsible for an increase in price spreads of food products. Indeed, entirely different conclusions may be drawn from them. It is perhaps significant that although increased processing of foods over the years has undoubtedly led to an increase in the number of operations performed per unit of labour, labour's share of the value added still has not increased.

Table 3 (below) shows the ratio of 1955 to 1946 in terms of salaries and wages as a percentage of value added in the manufacturing industries. This ratio is interesting for the purpose of showing how the foods and beverages industry compares with the other manufacturing industries. It will be noted that over this period, foods and beverages was among the eight manufacturing industries having a ratio of less than one. A ratio of less than one is an indication that salaries and wages were smaller relative to the value added in 1955 than in 1946. The remaining nine industries had a ratio of one or more.

I might identify that table again: Under 1955 I listed percentages that went to wages and salaries of the value added by manufacture. The comparable figure for 1946 is given, and in the final column the ratio is shown. You will see in the case of foods and beverages that it is less than 1 by

way of ratio. In other words, the percentage that the foods and beverages workers are getting out of the value added has slightly declined as for several others in contrast that have actually gone up. I might interject at this point to say that we are aware of the fact that foods and beverages is a wider category than your Commission is investigating, but our difficulty is that it was not possible to get statistics that were comparable, we could break down the foods and beverages figures that are given to us by the Dominion Bureau of Statisticsthen we could get a corresponding branch of wages, so we had to get groups we could compare right across the board. I am sure you are aware that the percentage for beverages in the total group is relatively small.

Table 3

SALARIES AND WAGES AS A PERCENTAGE OF VALUE ADDED BY MANUFACTURE

Industrial Group	1955	1946	Ratio 1955/1946
Foods and beverages	39.7	40.0	.99
Tobacco and tobacco products	33.2	36.0	.92
Rubber products	39.4	40.5	.97
Leather products	64.3	60.4	1.06
Textile products (except clothing)	59.7	53.5	1.12
Clothing (textile and fur)	60.7	55.6	1.09
Wood products	56.1	55.5	1.01
Paper products	40.3	40.2	1.00
Printing, publishing and allied industries	56.4	55.8	1.01
Iron and steel products	55.7	60.6	.92
Transportation equipment	60.6	71.6	.85
Non-ferrous metal products	34.0	51.1	.67
Electrical apparatus and supplies	56.2	57.3	.98
Non-metallic mineral products	43.4	41.9	1.04
Products of petroleum and coal	17.4	30.6	.57
Chemicals and allied products	35.0	32.6	1.07
Miscellaneous industries	54.1	51.5	1.05

Source: D.B.S. General Review of the Manufacturing Industries of Canada.

An interesting variation of the above statistical comparisons is to compare the rate of increase in salaries and wages per capita with the rate of increase in value added per capita. For salaries and wages to be responsible for an increase in price spreads, the rate of increase in salaries and wages per capita would have had to exceed the rate of increase in value added per capita. This has not been the case. In the period from 1946 to 1955, salaries and wages per capita increased by 84.3 per cent, value added per capita by 85.9 per cent.

Table 4 (below) shows how foods and beverages compares with the other manufacturing industries in this respect. Of the seventeen industrial groups (including miscellaneous industries), foods and beverages was one of nine whose rate of increase in salaries and wages per capita was less than its rate of increase in value added per capita.

By the way, you will note in Table 4 we have 17, whereas we had 18 before. This is because the Dominion Bureau of Statistics, although it does an excellent job, it sometimes changes its basis of its statistics, and we have another industry in 1946 which was not in 1955. That is a minor point, but just in case you noticed the 17 instead of 18. You will notice in column 2 we compare salaries and wages per capita in two years and in column 3 show the percentage of increase. Columns 4 and 5 show the value added per capita in the same two years and

show the percentage of increase. In column 6 the ratio of one to the other showing foods and beverages is among those where the workers have actually lost ground per capita in terms of wages, in terms of the value added per capita in the manufacturing end of the foods industry.

Table 4

(1) Industrial Group	(2) Salaries&Wages per capita 1946 $	1955	(3) Percent Increase	(4) Value Added per capita 1946 $	1955	(5) Percent Increase	(6) Ratio of (3) over(5)
Foods & beverages	1,503	2,770	84.3	3,756	6,984	85.9	.98
Tob.& tob. products	1,328	3,090	132.7	3,685	9,303	152.5	.87
Rubber products	1,715	3,367	96.3	4,237	8,535	101.4	.95
Leather Pro.	1,333	2,256	69.2	2,208	3,507	58.8	1.18
Textile Pro. (ex.clothing)	1,420	2,716	91.3	2,655	4,549	71.3	1.28
Clothing(tex. & fur)	1,382	2,188	58.3	2,484	3,602	45.0	1.30
Wood pro.	1,350	2,652	96.4	2,431	4,727	94.4	1.02
Paper Pro.	1,992	3,897	95.6	4,950	9,663	95.2	1.00
Printing,pub. &allied tr-	1,766	3,370	90.8	3,166	5,972	88.6	1.02
Iron & steel products	1,847	3,675	99.0	3,049	6,600	116.5	.85
Trans.Equip.	1,986	3,721	87.4	2,773	6,144	121.6	.72
Non-ferrous Metal pro.	1,857	3,772	103.1	3,635	11,081	204.8	.50
Ele. appar.& supplies	1,693	3,463	104.5	2,954	6,163	108.6	.96
Non-metallic min. prod.	1,626	3,364	106.9	3,879	7,745	99.7	1.07
Prod. of petro. & coal	1,999	4,143	107.3	6,530	23,868	265.5	.40
Chem.& allied products	1,785	3,573	100.2	5,482	10,200	86.1	1.16
Mis. Indus.	1,471	2,832	92.5	2,855	5,232	83.3	1.11

Source: D.B.S. General Review of the Manufacturing Industries of Canada.

A comparison between the rate of increase in value added per man hour and the rate of increase in hourly wages of production workers offers still another method of proving that wages in this industry have not contributed to price spreads. Table 5 (see page 7) is based on the period beginning with 1949, the earliest year in which figures are available showing wages of production workers separated from salaries. Columns 7 to 10 compare the rate of increase in value added per man hour with the rate of increase in average hourly earnings. Although there was no consistent pattern of increases in value added per man hour as against increases in hourly earnings, for the entire period value added per man hour increased 46.7 per cent; on the other hand, average hourly earnings went up 45.0 per cent.

Looking at this table you will see what we have done, drawing on D.B.S. statistics. We have taken the total production earnings for a group of years, taken the average weekly wages, the average weekly hours, and worked them until we got to column five where we have the total number of paid hours. Six is the total value added, column seven is the value added per man hour in each of the years. Column 8 puts this in terms of percentages, and column nine gives the average hourly earnings in cents. Column ten gives the increase in percentages.

Now, as I say, there does not seem to be much of a pattern in column eight or column 10

for that matter, but what is interesting is that when one takes the full period from 1949 to 1955 the apparent added per man hour in the manufacturing end of the food industry, foods and beverages, is 46.7 per cent, where as the increase in average hourly earnings is only 45.0 per cent.

Thus far we have concerned ourselves with proving that wages and salaries in the food processing industry, an important component in the farm marketing bill, have not contributed to price spreads in the period 1946 to 1955, the latest year for which appropriate data are available. We have, we think, shown conclusively that wages and salaries over this period have not increased their proportion of the key figure of value added, but they have even lagged slightly behind. No more indisputable proof than this could be offered in support of our thesis.

I do not know what was said to you this morning, but I read in the press what was said to you yesterday, so I am glad to be here today to give figures which we think answer the charge that wages are a factor in the price spread that you are examining. The various tables we have given in our view have proved that that is not so. We do not have to say they have gone up a little bit, we see by the statistics that are available that the position of the workers in the food processing industry has slightly worsened.

If we have refrained from lamenting over

the fact that wages in this industry have always been very low, it is only because this matter is not relevant to the inquiry of the Royal Commission. However, we believe that the facts should be recorded to show what unfavourable treatment has been accorded to the employees in this industry in the matter of wage increases. Table 6 (see page 8) ranks the manufacturing industries according to the size of increases in average hourly earnings over the period 1946 to 1957. In spite of the fact that the foods and beverages industry in 1946 ranked fifth from the bottom of the eighteen manufacturing industries in hourly wages, its wage increases since then have been among the smallest. Foods and beverages, it will be noted, ranks near the bottom, coming fourteenth out of the eighteen industries, in the matter of increases over the period 1946 to 1957. This industry has been most decidedly a low wage one.

TABLE 5

COMPARISON OF VALUE ADDED PER MAN HOUR
AND HOURLY EARNINGS, FOODS & BEVERAGES, 1949-1955

	Production Earnings $	Average Weekly Wages $	Average Weekly Hours	Total No. of Paid Weeks (1)plus (2)	Total No. of Paid Hours (4)plus (3)	Total Value Added $	Value Added Per Man Hour (6)plus(5) $	% Increase	Average Hourly Earnings Cents	% In-crease
1949	248,186,889	36.46	42.4	6,807,101	288,621,082	834,017,547	2.89	-	86.0	-
1950	257,615,764	38.25	42.6	6,735,053	286,913,258	885,322,008	3.09	6.9	89.8	4.4
1951	292,186,002	41.90	42.2	6,973,413	294,278,029	985,240,884	3.35	8.4	99.3	10.6
1952	321,410,277	46.01	41.9	6,985,661	292,699,196	1,091,944,158	3.73	11.3	109.8	10.6
1953	338,972,969	47.70	41.3	7,106,352	293,492,338	1,146,473,720	3.91	4.8	115.5	5.2
1954	352,857,824	49.45	41.0	7,135,649	292,561,609	1,181,648,171	4.04	3.3	120.6	4.4
1955	369,929,478	51.25	41.1	7,218,136	296,665,390	1,257,652,677	4.24	5.0	124.7	3.4

1949 - 1955: Value added per man hour - 46.7%

Increase in average hourly earnings - 45.0%

Source: D.B.S. Review of Man-Hours and Hourly Earnings with Average Weekly Wages, 1946 - 1956;
D.B.S. General Review of the Manufacturing Industries of Canada

TABLE 6

INCREASE IN HOURLY EARNINGS, 1946 - 1957

(Ranked according to size of increases)

	Manufacturing Industries	1946 cents	1957 cents	% Increase
1	Tobacco & tobacco products	53.9	151.0	180.1
2	Products of petroleum & coal	87.6	220.9	152.2
3	Paper products	74.1	186.7	152.0
4	Chemical products	69.4	170.9	146.3
5	Non-ferrous metal products	75.9	183.0	141.1
6	Iron & steel products	76.1	183.0	140.5
7	Printing, publishing and allied industries	78.6	188.6	139.9
8	Non-metallic mineral products	68.0	160.3	135.7
9	Electrical apparatus and Supplies	71.5	165.9	132.0
10	Non-durable goods	63.8	146.5	129.6
11	Rubber products	72.3	165.5	128.9
12	Durable goods	76.4	172.6	125.9
13	Textile products (except clothing)	53.7	120.9	125.1
14	Foods and beverages	62.5	138.1	121.0
15	Wood products	64.2	139.6	117.4
16	Transportation equipment	87.9	182.1	107.2
17	Leather products	55.8	110.5	98.0
18	Clothing (textile & fur)	56.2	104.8	86.5

Source: D.B.S. Review of Man-Hours and Hourly Earnings with Average Weekly Wages, 1946 - 1957

The following table (Table 7) shows that foods and beverages rank well down the list, coming tenth out of sixteen industries, in the matter of wage increases between 1949 and 1957.

What we are dealing with in Table 7 is substantially the same as what we dealt with in Table 6, with two differences. On page 8 we have a longer period going back to 1946, and on page 9 we have a more recent period, 1949 to 1957. On page 8 we are dealing with Dominion Bureau of Statistics statistics, and on page 9 with the Department of Labour statistics, but they hang together, and they prove the same thing. On Table 7 you will see have the index numbers of average wage rates by industry taking 1949 as 100, noting the percentage increase, and on this basis you will see that foods and beverages are tenth in the list. As I indicated a while back, I would be dealing with the processing industry down to this point. And now I have a few words to say about the other of the two major areas where labour costs should be looked at.

Table 7

INDEX NUMBERS OF AVERAGE WAGE RATES BY INDUSTRY
(Rates in 1949=100)

(Ranked according to size of increase in wage rates 1949-57)

	Industry	1949	1957	% Increase
1.	Petroleum refining & products	100	176.1	76.1
2.	Tobacco, cigars & cigarettes	100	174.6	74.6
3.	Paper products	100	171.6	71.6
4.	Chemical products	100	169.4	69.4
5.	Iron & Steel products	100	165.2	65.2
6.	Durable goods	100	160.7	60.7
7.	Electrical apparatus & supplies	100	160.2	60.2
8.	Printing, publishing & allied industries	100	159.5	59.5
9.	Transportation equipment	100	158.8	58.8
10.	Foods & beverages	100	156.7	56.7
11.	Non-durable goods	100	156.3	56.3
12.	Wood products	100	152.6	52.6
13.	Leather products	100	151.5	51.5
14.	Rubber products	100	150.4	50.4
15.	Clothing (textile & fur)	100	144.0	44.0
16.	Textile products (except clothing)	100	141.6	41.6

Source: Department of Labour, Wage Rates and Hours of Labour, 1957.

In examining another major component of the farm marketing bill, the retailing of foods, statistical evidence indicates the same conclusions as for the food processing industry. Here again, as the following facts will show, no case can be made against wages and salaries in the matter of price spreads of food products.

As in the case of the food processing industry, wages and salaries (as a per cent of sales) in the retailing of foods are lower than in many other retail stores. Table 8 (page 10) compares wages and salaries paid to store employees as a percentage of total sales for chain food stores, chain variety stores, chain drug stores, chain women's apparel stores, chain shoe stores, and all retail chain stores over the period 1946 to 1956. Wages and salaries as a percentage of total sales in the chain food stores was lower than for any of the others, and substantially lower than for all the chain stores. This can undoubtedly be explained by the large volume of sales, self-service methods, and economies of scale resulting from large retail food stores. These statistical comparisons show that wages and salaries in retailing of foods are a comparatively low cost factor.

There we have taken information again from the Dominion Bureau of Statistics on retail chain stores, taken the total sales, total wages and salaries in these various categories, set one against the other as a percentage and you will see

that wages and salaries as the percentage of the sales dollar are lower than the other chains.

Table 8

TOTAL WAGES & SALARIES PAID TO STORE EMPLOYEES AS A PERCENTAGE OF TOTAL SALES, 1946-1956

	Average Yearly No. of Chains	Total Sales	Total Wages & Salaries	%
		$	$	
Chain food stores (grocery & combination)	42	6,875,779,800	410,835,200	6.0
Chain drug stores	28	350,613,700	54,148,400	15.4
Chain variety stores	17	1,813,164,600	264,917,500	14.6
Chain women's apparel stores	38	484,255,700	45,620,900	9.4
Chain shoe stores	34	421,363,900	52,314,300	12.4
Total, all chains	452	19,404,168,700	1,603,092,300	8.3

Source: D.B.S. Retail Chain Stores, 1956

For wages and salaries to have contributed to the price spreads of food products, it follows that they would have had to increase their proportion relative to sales. Table 9 (below) shows that this has not been the case. Wages and salaries have remained relatively constant over the period 1946 to 1956, and in the last three years were slightly lower than the average for the entire period.

Again we have set out the wages and salaries paid to store employees as a percentage of total sales for the years 1946 to 1956, and you will notice these remain relatively constant with a slight decline.

In other words, in the retailing end of the story is the same as in the processing end. In absolute dollars, of course, the workers are getting wages a little higher than they were, but in terms of percentage of value added at the retail end the percentage has actually declined slightly across the years.

Table 9

CHAIN FOOD STORES
(Grocery and combination)

WAGES & SALARIES PAID TO STORE EMPLOYEES AS A PERCENTAGE OF TOTAL SALES, 1946-1956

Year	Total Sales	Wages & Salaries	%
1946	$237,677,300	$15,340,000	6.5
1947	301,796,300	18,653,600	6.2
1948	387,136,600	22,822,500	5.9
1949	433,950,300	26,322,100	6.1
1950	504,578,900	30,018,200	5.9
1951	612,730,800	36,731,100	6.0
1952	702,104,600	42,252,600	6.0
1953	773,220,100	47,433,000	6.1
1954	863,422,100	50,306,000	5.8
1955	962,832,700	56,495,000	5.9
1956	1,096,330,100	64,461,100	5.9

Average, 1946 - 1956: 6.0

Source: D.B.S. Retail Chain Stores, 1956.

Table 10 presents a breakdown of chain food stores into the categories of chain grocery stores, chain combination stores, and chain meat stores, showing salaries as a percentage of net sales for an historical series of years. It would be difficult to draw from these figures the conclusion that salaries of paid store employees have been a factor in price spreads.

There we have, as I have indicated, again the percentages across the years, salaries as a percentage of net sales, and you will notice how constant they are with the grocery stores running fairly level with the others.

Table 10

SALARIES AS A PERCENTAGE OF NET SALES

	1947	1949	1951	1953	1955	1957
Chain grocery stores	N.A.+	8.66	8.53	8.35	8.75	8.49
(Number of firms)		(8)	(8)	(6)	(6)	(5)
Chain combination stores	8.38	7.99	7.57	7.41	7.67	7.32
(Number of firms)	(24)	(21)	(21)	(24)	(22)	(26)
Chain meat stores	11.28	10.85	9.82	N.A.+	11.01	11.26
(Number of firms)	(11)	(11)	(8)		(6)	(4)

+ Not available

Source: D.B.S. Operating Results of Chain Food Stores, 1957.

Where it has been statistically possible to do so, we believe that we have established beyond a doubt that wages have not contributed to the increase in price spreads. However, there are many other and important factors in this problem of price spreads where we have decidedly much less information. For example, we need more detailed knowledge of the financial status of corporations in the food industry, operate on the basis of a comparatively low mark-up, their rapid turnover of inventory may result in a very substantial return on their equity investment. Indeed, according to our calculations based on approximately fifty food companies, ranging over food chains, dairies, processing of foods, so forth, profit before taxes as a percentage of shareholders' equity averaged more than 20 per cent in 1957; after tax profits averaged between 11 and 12 per cent. This is no mean profit, no matter what standard of measurement is adopted.

BB
RY:iz
11/14

We need more exact information on depreciation charges against earnings, which we suspect in some cases may be excessive. If this is the case, it would understate the profit position of the corporation, and consequently profit as a percentage of the sales dollar. We should like to know, for example, if corporations are depending too much on depreciation allowances for their capital requirements, instead of issuing more equity stock. We are concerned that excessive depreciation charges, which must come out of the sales dollar, may be reflected in the form of higher prices passed on to the consumer.

In many cases, there is no information on sales volume of corporations, which makes it impossible to determine the ratio of profits to sales. Lack of uniformity in reporting data by companies also makes it difficult at times to assess the real financial position of a corporation.

There is little available in the way of exact knowledge of a number of other factors which we suspect play a very significant role in the price spreads of food products. We are hopeful that this Royal Commission may see fit to make recommendations to correct this situation.

In fact, we think it is significant and important that one of your terms of reference is to assess the adequacy of the information that is now available.

We do know that there is a direct relationship between the degree of processing of a food product and the farmer's share of the consumer's

dollar spent on that product. For example, the farmer is reported as having received in 1957 about 69 per cent of the retail dollar spent on eggs, an unprocessed food. On the other hand, the farmer received less than 20 per cent of the retail dollar spent on canned peas, a highly processed food. (Department of Agriculture, The Economic Analyst, August 1958.) Although we are not in a position to judge the fairness of these amounts, they illustrate a basic fact which must be recognized: in general, the more highly processed a food product, the smaller will be the farmer's share of the retail dollar. Increased processing of a food product does not necessarily mean, however, that the farmer receives any less for it. On the other hand, increased processing which adds to the cost of the food product, is nearly always passed on to the consumer.

What we need is more precise data showing how much of the consumer's dollar for individual food commodities is actually spent for processing purposes. Otherwise, it is impossible to make an accurate assessment of the price spreads problem. Processing of foods has increased at a phenomenal rate since before the war. We would therefore recommend that DBS make a careful attempt to classify foods according to the degree to which they are processed or unprocessed. We realize that this would not be an easy task, but we believe that such a classification, revised on a regular basis, is essential if we are to know the part played by processing in the farm -- retail spread for individual agricultural commodities.

The farmer naturally feels entitled to a larger share of the food dollar for products requiring larger farming inputs. However, because of lack of appropriate information, it is virtually impossible to determine what this relationship is between farm inputs for a given product and the farmer's share of the food dollar spent on that product.

We need more precise information on other factors, as for example, the average distance over which individual products are shipped from the time they leave the farm until the time they reach the consumer. The nature of the product, especially its degree of perishability, will also affect the cost of transporting and storing it. With increased urbanization in Canada, we suspect that the services connected with transporting and storing, as well as distribution, may be playing an increasing role in the farm-retail spread.

We should like to see information produced, wherever possible, showing a breakdown for individual commodities of costs for advertising, packaging, marketing services, the cleaning and preparing of foods formerly done by the housewife. We strongly suspect that these factors are playing an increasingly important role in widening the farm-retail margin. It would be highly useful to know how much extra consumers are paying for all of these factors, some of which were much less important a decade ago.

We fully appreciate that what we are asking for is a large order. We believe, however, that in the interests of both the farmer and the consumer, such

information should be made available wherever possible. Even with such information, the task of working out and applying effective measures to reduce the farm-retail spread is by no means easy. Without the additional information we have suggested, it becomes much harder.

Perhaps I may add by way of summary that we have concentrated on one point which we felt needed to be made, namely, our contention that the widening spread which certainly is taking place is not due to the wages paid in the food processing industry. We suggest that there may be a cause for this in the corporation structure in the industry, and we think there is no doubt but that an important contributing element is the modern processing methods; all the things that my wife and your wife want and expect, which our grandmothers did not have. We do not decry them; we do not comment on them, but these are additional services which a modern society wants, and we think a good deal of it is there, but we don't seem to be in a position, on the basis of the statistics available, to assess the degree to which that is a contributing factor.

We hope that we have proven our main point. We hope that we have suggested areas where it is useful to make further inquiries, and we hope you will agree with our recommendation that more data in the processing and retailing areas should be made available. Thank you.

THE CHAIRMAN: Might I say with respect to the matters referred to on pages 11 and 12 that the Commission is conducting its own inquiries into the

matters of profits and depreciation, and we will get information on all these things, and we will be considering various other matters that are important.

Mr. Knowles, we received this brief yesterday, and we haven't had too much time to work over it, but I find a little difficulty in either the arithmetic or the conclusions, or both of them, in your main thesis. The main argument seems to be that because the percentage of the spread represented by wages has not increased that this is indisputable proof that the wages have not been a factor in bringing about the increase in the spread.

Let me give you a hypothetical illustration: supposing the spread in year one is 50, and the spread in year two becomes 100. Out of the 50 you have two factors -- one gets 25, and the other gets 25. In year two each of them gets 50. Now, isn't there some implication that perhaps both of them have been contributing factors to the increased spread from 50 to 100, or,proportionately they are both the same?

MR. KNOWLES: I don't think we assert that wages have not increased and that therefore there has not been passing on of that increased wage cost in the absolute cost to the consumer, but it seems to me, even on your hypothetical case, that if the percentage of value added remains constant that the addition of that value may in total be the cause of the increased spread. Let us be hypothetical and let us assume that it is packaging and freezing and so on that is the major thing: this is a value that has been added;

this is a service. The total of that increased service or value may be responsible for the much wider spread -- in fact, we find that it is. But, the main component in the increased value is, in our view, not increased wages when the wage portion of the value added in 1956 is no greater than the wage portion added in 1946. Are we talking the same language or not?

THE CHAIRMAN: You wind up with the conclusion that this is indisputable proof that wages have not been a factor. Now, this is a conclusion. I question whether you can draw that conclusion from the data which you have presented. Roughly, the value added is a measure of the spread. It is true materials have to be taken out of that. The value added is the gross sales value less the cost of materials -- supplies and electricity and things.

MR. KNOWLES: Yes.

THE CHAIRMAN: But subject to removal of these factors -- at least, the electricity and the supplies -- the value added is a rough indication of the spread?

MR. KNOWLES: Yes, there always was a value added. There was a value added at the beginning of the period and a value added at the end of the period. It would seem that the value added at the end is considerably greater than the value added at the beginning.

THE CHAIRMAN: Yes, the spread has gone up and the value added has increased. Merely to demonstrate which one of the factors involved in this

receiving something out of this value added has not increased its percentage of an increasing amount does not, I think, prove conclusively that an increase in the payments to this factor has not contributed to the increase in the value added.

MR. KNOWLES: Let me see if I can come at it another way: to provide this value added may, and indeed probably has, call for more workers to do the adding of the value.

THE CHAIRMAN: That is possible, yes.

MR. KNOWLES: Therefore, more dollars will have to be spent on it. Our contention is not that wages don't play a part in the cost, but that there haven't been increases of wage rates which, in themselves, are the cause of that increase. The gap has widened because services have been added, because an additional value has been added.

THE CHAIRMAN: This is true, but there are other factors to be considered. I come back to your conclusion that this is indisputable proof that it is not so: now, if you say there is no possibility of concluding from these figures that wages have been a factor, this is one thing; but, to say this, in itself, provides conclusive proof, does it not ---

MR. KNOWLES: I think I said it that way in one or two paragraphs, and the other way at one point. I think I put it in the negative phrase at one point, and maybe I should have left it at that.

THE CHAIRMAN: I would be a lot happier with it that way. At least it seems to me it is a more valid conclusion.

MR. KNOWLES: You realize that while I ask you to look at the profit structure and while the examining we have done suggested fairly high rates of return, in the same vein we have not alleged that this increased rate of profit, the increased take at that end itself causes all the price spread. I think by imputation it is our feeling that perhaps you can come to this view as well, I watch television nowadays, and this does add to the service, does widen the gap that is up there.

If society wants that service, it has to pay the various component parts.

Our contention is that the wage element is one of the component parts of the cost, relatively speaking, in relation to the total value added, and in relation to the wages in other industries is not in itself to be blamed for that spread. Naturally I have in mind the charge that is made in some of the briefs presented to you, that this is a factor, the increased wage rate. I would you to look at our tables.

THE CHAIRMAN: I am talking about page 3 where you say "It is hardly necessary to add that there can be no validity to any claim that salaries and wages in this industry have increased price spreads unless it can be shown that they have increased relative to value added."

If the value added is double, some reason for that doubling might be found in the increase in wages even if they have not themselves doubled. I

would be inclined to say something else has had more effect.

MR. KNOWLES: I think I would agree with that. I am prepared to accept a modification of that wording.

THE CHAIRMAN: You see, the sort of thing that worries me is Table 3, you mention something about the product of petroleum; looking at Table 3 on page 4.

MR. KNOWLES: Yes.

THE CHAIRMAN: I am interested in that too. Petroleum products are something I know something about. On the basis of this, you will be saying that the workers in the petroleum industry are the worst off of all. It just so happens that I know from simple facts that is not so.

MR. KNOWLES: I think we are all aware of that, but the wage rates in the petroleum industry are certainly much better than the wage rates in the food and beverage industry.

THE CHAIRMAN: I expect the increases have been relatively high although I don't know. Again on Table 4 of page 5 petroleum industry appears worse off than any other. I simply cannot draw very significant conclusions on these tables.

MR. KNOWLES: There will be in any set of industries when one compares the other factors; the much higher productivity of the petroleum industry, the relative newness of it, the tremendous demand for it.

THE CHAIRMAN: This is the point. If you had said one cannot conclude from these figure that wages have been a factor in the spread --

MR. KNOWLES: Wage increase?

THE CHAIRMAN: Yes, the wage increases have been a factor, I will agree with you, but you say this is inconclusive proof that they have not. This I am afraid I cannot accept.

COMMISSIONER DRUMMOND: I am wondering, Mr. Knowles, to touch on the same point, if two sentences in your brief do not pretty well state the case.

On page 6, at the centre of the page you say: "We have, we think, shown conclusively that wages and salaries over this period have not increased their proportion of the key figure of value added --". I would be inclined to underline the words "their proportion".

And to go over to page 10, again in the middle of the page, the first sentence there: "For wages and salaries to have contributed to the price spreads of food products, it follows that they would have had to increase their proportion relative to sales." Again underlining the words "their proportion".

Now, it seems to me that our trouble is in this question of proportion. I think we perhaps all agree that the so-called spread is actually increased in the absolute sense, and we also perhaps all agree that the wages have increased in the

absolute sense. I think what the Chairman is trying to suggest is that since these two things seems to be a fact, that anything that has increased in the absolute sense, has actually been a contributor to this spread?

MR. KNOWLES: I accept that, and if the language in some of the paragraphs does not make the point as well as it did in the paragraph you have drawn to my attention, I am happy you have done so. As I said earlier, we do not allege that wages do not have to be paid for in the final cost of the product. We do not allege that there has not been an addition to the food bill, because of the additional services that have been added to all the processing and so on.

Our contention is that in terms of proportion the increase in wages has been less than one might have expected for the extra services given; the extra value added, and has been less in relation to the wages in other industries. Therefore it is not fair to say in assessing the problem that you are dealing with that a major share of the blame or a proportionate share of the blame is due to wage increases. As a matter of fact, as I say, this is not part of the case before you, but you will see between the lines that we leave the implication in our view maybe the workers in this industry should actually be getting more wages than they are.

COMMISSIONER DRUMMOND: Would it be fair to leave it this way: In your opinion the fact that

wages have increased does not mean that labour is any more responsible than any other factor, proportionately, no more responsible than anything else, and perhaps even less.

MR. KNOWLES: We think that our figures prove -- dare I say -- indisputably, even slightly less. We share the concern -- we understand and share the concern of the farmers that the price they are getting is proportionately less of the total product than it used to be, and we think it is very valuable and worth while that this subject is being studied. We do know that they are not receiving less in absolute dollars for their product because the end product is more.

The whole problem is this; the additional service that our society seems to desire or want or that it is getting anyway, whether it wants it or not.

COMMISSIONER DRUMMOND: I think you are actually concerned about the probably constant claim that labour has been in a major factor responsible. You are really suggesting it is no more major than anything else.

MR. KNOWLES: Well, as I said a moment ago, we think these figures show that even the absolute wage rates are less responsible than any total of the other factors, and on a proportionate basis, that is where the blame should not be put.

COMMISSIONER MacKICHAN: Mr. Knowles, would you agree that probably because food is before us three times a day at least, and that it is purchased

a number of days a week against a motor car that we buy once in two years, or a suit of clothes we buy every six months or something, do you not think there is more pressure on the price by public opinion by all the consumers that has a bearing maybe upon the price of food or wages or anything else that goes to make up the cost, rather than against those things that we would only be buying occasionally.

MR. KNOWLES: This may well be, but in any price that is determined there, of course, are a number of factors. As against the fact that it is being bought all the time it is also a necessity We can get along without a car every two years, and get along without a suit of clothes every six months, but we cannot very well get along without food for any long period of time. Generally speaking, I think there is a tendency in the briefs that have suggested the price of food has gone down because of consumers concerned in it.

It may well be that Canadians as consumers are being unfair to Canadians as farmers, and Canadians as workers in this industry.

It is understandable with consumers having to buy food all the time, that they are concerned about its high price, but it is understandable that the farmers are concerned that the price that is paid in the stores is so much higher than what they get for it, but this is part of what your Commission has undertaken to get an understanding of the situation.

COMMISSIONER MacKICHAN: The recurring

purchases and the definite need all the time for food lends a stability to this industry, a stability in employment that possibly --

MR. KNOWLES: It may also be lending a stability to the price of the farmers and the wages to the workers being a little too low. That is the trouble. It is too stable.

COMMISSIONER MacKICHAN: But it has that feature. Then again, in the food industry you probably have less skilled labour than in almost any other industry of which I can think, so your general wage bill is lower.

MR. KNOWLES: The members of our unions in industry would not agree with that.

COMMISSIONER MacKICHAN: Well, I am thinking of --

MR. KNOWLES: There are many industries today that are automated and assembly line jobs that makes it pretty difficult to make that kind of comparison.

COMMISSIONER MacKICHAN: I am thinking of the food stores where even the cashiers are just high school girls, and probably it is their first job, and the ordinary people are just not highly skilled. The radio and television presents the merits of the product, not the salesmen any more, and again the consumer, I would think,,would have to be credited with considerable of the labour costs using such things as self service.

MR. KNOWLES: You mention radio and television.

I did put the word "advertising" in here. I did not expand on it. I know you will look into it.

COMMISSIONER MacKICHAN: That is all, Mr. Chairman.

THE CHAIRMAN: Mrs. Walton?

COMMISSIONER WALTON: I really have not a question, but an observation. I was just wondering in the changing of our retailing of food by way of self-service, where we have so much pre-packaging done ahead, that the other briefs have indicated to us that the consumers tend to shop two nights and a day towards the end of the week, and then there is a great deal of part-time help -- do you suppose these factors in themselves must contribute to the tables that indicate the food and beverage industry are down less, as far as wage rates go, compared with other industries? In other words, there have been a lot of other things done so that at the retailing end we serve ourselves, or the packaged meat sells it to us, and this sort of thing, and the moment we do it, that will have an effect in the retailing end.

MR. KNOWLES: I doubt if it would be of sufficient percentage to affect the picture as a whole. It would hardly apply in the processing end, would it?

COMMISSIONER WALTON: No. I was just referring to the retail end.

MR. KNOWLES: Yes, I agree with that.

COMMISSIONER WALTON: There has been processing done further back, so at the retailing end

it is all done, and it is just up in the shelf. That sort of thing tends to limit the number of employees required because we have self-service, also we have this habit of being consumers at a time which requires part-time help, and that sort of thing.

DD
PM:iz
11/14

MR. KNOWLES: It raises a question that I have looked into; I do not know whether we have any statistics on it or not. How do these reduce the number of persons employed? I wonder if it does. All these supermarkets and the pastime that it is becoming to go shopping at night with more people having to stand around and watch, perhaps the truth is that you will increase rather than decrease.

COMMISSIONER WALTON: It may be, but I was thinking of volume per sales clerk.

MR. KNOWLES: And I understand that if housewives with or without their husbands get into these supermarkets at night shopping if they go in without a list buy far more than they intended to in the first instance.

COMMISSIONER WALTON: That is true when they go with their husbands too, I am told.

COMMISSIONER KIDD: There is only one point in the discussion about whether wages have or have not -- you have not given us much on productivity. Have you any comments to make as to productivity in any segment of the foods and beverages industry or in the industry as a whole?

MR. KNOWLES: No, we have not been able to -- as you are possibly aware we have done some work on this question for the economy generally over a period of years. It is pretty difficult to do it in this industry except in so far as it turns up on Table 5, where you will note that the value added to man-hour in terms of dollars and cents, that these are not

constant dollars. I admit that but the value added in terms of dollars and cents has gone up consistently from 1949 to 1955 from $2.89 in 1949 to $4.24 in 1955. Now, someone may point out part of this was due to modern methods and techniques and so on but we suggest that there is there an obvious element of increased efficiency on the part of the people in the industry.

THE CHAIRMAN: You referred to a study you have made, on page 11, of fifty firms or companies, and I was wondering if you could give us a copy of that study?

MR. KNOWLES: Yes, file it with the Commission?

THE CHAIRMAN: Yes.

MR. KNOWLES: We would be glad to do so. We did this on the basis of the balance sheet and income statements of a number of food companies as reported in the Financial Post Survey of Industries, and we would be very glad to produce such a document and file it with the Commission.

THE CHAIRMAN: Well, I think I will perhaps carry on my argument with Mr. Bell some time. I think it would be better. As it stands at the moment there do not seem to be any other questions.

I would express our thanks to you for coming here and helping us today.

MR. KNOWLES: Thank you for the hearing and best wishes to you as you try to solve the problem.

THE CHAIRMAN: We stand adjourned until ten o'clock tomorrow morning when we will receive the brief

of the Interprovincial Farm Union Council.

---Whereupon at 3.05 p.m. the hearing adjourned until 10.00 a.m., Saturday, November 15th, 1958.
